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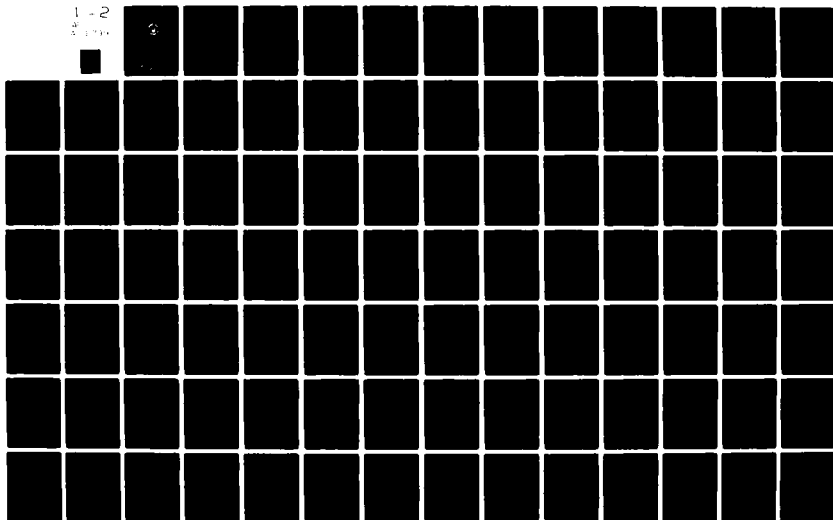
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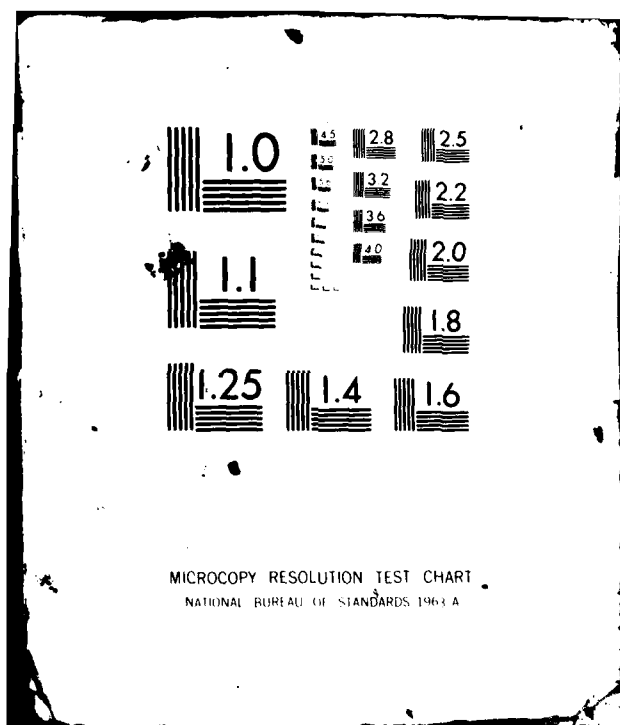
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THESIS

FOREIGN MILITARY SALES:
O&MN APPROPRIATIONS ARE SUBSIDIZING
ACCESSORIAL COSTS

by

Dennis W. Koch

September 1981

Thesis Advisor:

Dan C. Boger

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Foreign Military Sales:
O&MN Appropriations are Subsidizing
Accessorial Costs

By

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Lieutenant Commander, Supply Corps, United States Navy
B.S., University of Colorado, 1973

Submitted in Partial Fulfillment of the
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ABSTRACT

The rapid expansion of the Foreign Military Sales (FMS) program during the 1970's dramatized the need for adequate measures to recoup the costs of sales of defense stocked material. In implementing FMS cases, the U.S. Navy utilizes the same resources and support organizations that are employed to manage and implement U.S. Navy support programs. To reimburse the ~~the~~ ^{the} O&MN appropriated funds used to finance the FMS transactions, a universal language must be utilized to transmit expenditure information to the billing, collecting and accounting activity, the Security Assistance Accounting Center (SAAC). Accuracy of the information is critical for the full recoupment of expenditures. The thesis addresses the problems associated with the accuracy of expenditure information for the recoupment of packing, crating, handling and transportation costs incurred by U.S. Navy activities. To improve the accuracy of expenditure information, recommendations are made for the Navy to utilize the previously established transportation billing code (TBC).

TABLE OF CONTENTS

I.	INTRODUCTION -----	9
	A. OVERVIEW -----	9
	B. STATEMENT OF PROBLEM -----	10
	C. OBJECTIVE OF RESEARCH -----	12
	D. ASSUMPTIONS -----	13
	E. METHODOLOGY -----	14
II.	BACKGROUND OF FMS -----	16
	A. FMS POLICY--AN HISTORICAL SYNOPSIS -----	16
	B. FMS LEGISLATIVE AUTHORITY AND KEY ACTORS WITHIN THE EXECUTIVE BRANCH -----	16
	C. ADMINISTRATIVE CONTROL OF FMS FUNDS -----	20
	D. U.S. NAVY ORGANIZATION FOR FMS -----	26
III.	FMS CASE IMPLEMENTATION--MATERIAL MOVEMENT -----	29
	A. INTRODUCTION -----	29
	B. FMS IMPLEMENTATION POLICIES -----	29
	C. CASE IMPLEMENTATION--MATERIAL REQUEST AND DOCUMENTATION PROCEDURES -----	33
	D. STANDARD FMS MATERIAL ISSUING AND SHIPPING PROCEDURE -----	36
	E. FMS MATERIAL MOVEMENT EXCEPTIONS--USE OF THE DEFENSE TRANSPORTATION SYSTEM (DTS) -----	38
	F. NOTIFICATION OF MATERIAL MOVEMENT -----	42
IV.	FMS PRICING -----	44
	A. INTRODUCTION -----	44
	B. CONGRESSIONAL PRICING GUIDANCE -----	45

C.	FMS PRICING GUIDANCE -----	46
D.	BASE PRICE COMPUTATION FOR STOCKED MATERIAL ----	48
E.	ACCESSORIAL COSTS -----	49
F.	STANDARD PERCENTAGE RATES FOR ACCESSORIAL SURCHARGES -----	53
V.	THE FINANCIAL ADMINISTRATION OF FMS-----	57
A.	INTRODUCTION -----	57
B.	FMS TRUST FUND ACCOUNTING -----	58
C.	SAAC'S FINANCIAL CONTROL OF FMS -----	60
D.	THE FINANCIAL ADMINISTRATION OF FMS -----	62
VI.	FMS ACCESSORIAL COST RECOVERY -----	67
A.	INTRODUCTION -----	71
B.	PROOF OF SHIPMENT -----	72
C.	THE LOGISTICAL AND FINANCIAL TRANSFORMATION PROCESS -----	75
D.	SAAC REQUIREMENTS PROCEDURES -----	78
E.	THE FMS DISCORD -----	78
VII.	CONCLUSION -----	81
VIII.	RECOMMENDATIONS -----	84
	APPENDIX A--GLOSSARY OF ACRONYMS -----	86
	APPENDIX B--GLOSSARY OF SELECTED TERMS -----	89
	APPENDIX C--THE LETTER OF OFFER AND ACCEPTANCE AND PREPARATION INSTRUCTIONS -----	92
	APPENDIX D--DELIVERY TERM CODES -----	98
	APPENDIX E--DELIVERY SOURCE CODES -----	100
	APPENDIX F--DD 1517 -----	104
	APPENDIX G--TRANSPORTATION BILLING CODES -----	105

APPENDIX H--TRANSPORTATION CHARGES USING DELIVERY	
TERM CODES -----	109
APPENDIX I--MODE OF SHIPMENT CODES -----	111
LIST OF REFERENCES -----	113
BIBLIOGRAPHY -----	117
INITIAL DISTRIBUTION LIST -----	122

LIST OF FIGURES

I.	FMS/Grant Programs, FY 1950-1980 -----	18
II.	Principle Executive Branch Organizations Involved in Arms Transfer Decision Making -----	21
III.	U.S. Navy Organization For Security Assistance -----	27
IV.	FMS Modifications to MILSTRIP Requisitions -----	35
V.	Shipment Responsibility--U.S./Customer -----	41
VI.	Cost Recovery Formulas for Both Stock Fund and Secondary Items -----	49
VII.	Cost Recovery Formula for Excess Stocked Material -----	50
VIII.	Material Movement Example -----	54
IX.	Standard Percentage Ratios -----	55
X	Format of DD COMP (M) 1517 -----	64
XI.	Navy FMS Case Implementation -----	65
XII.	Navy FMS Documentation Flow and Case Implementation ----	66
XIII.	FMS REquisitions Issued Through Navy's ICP's -----	70

I. INTRODUCTION

A. OVERVIEW

International arms sales have become one of the fastest growing global enterprises. The extent of this growth is exemplified by the fact that arms sales in the past five years equaled all world-wide arms trade during the preceding quarter century. Currently the United States is the leading supplier of arms to the world, accounting for nearly as many arms exports as all other suppliers combined. [1:1]

The annual total of United States supplied Foreign Military Sales (FMS) has grown from about \$1.2 billion in goods and services ordered in fiscal year 1970 to over \$15 billion ordered in fiscal year 1980. [2:1] As of 28 February 1981 the Security Assistance Accounting Center (SAAC) reported that the total dollar value of outstanding FMS agreements was \$94.7 billion. [3:10] New sales agreements for fiscal years 1981 and 1982 are estimated to be approximately \$15.0 billion each. [4] Sales of this magnitude have focused considerable congressional and public attention on the rapid growth and size of the FMS program.

Numerous audits have been performed by defense and military service audit agencies to identify and correct program weaknesses. Over the past decade, the General Accounting Office (GAO) has issued over 30 reports covering a wide range of accounting and financial management problems experienced by

the Department of Defense (DOD) in the administration of the FMS program. [5:3] Considerable attention has been devoted to the subject of DOD failing to recover from the purchasing countries all the costs incurred in arms sales. "As a result, the Foreign Military Sales (FMS) program has been subsidized by hundreds of millions of dollars." [6:1]

B. STATEMENT OF PROBLEM

All FMS functions, prior to November 1976, were carried out by the military departments, each for its own particular product or service. During fiscal year 1977, SAAC was created to provide a single DOD point of reference for foreign government inquiries concerning the financing aspects of FMS agreements and to standardize the FMS billing and collection system. Under this new centralized system military departments are responsible for detailed obligation, expenditure and cost accounting; for paying contractors; and for reporting these disbursements as well as other financial information to SAAC. [5:2]

Each military department developed its own system to account for and report sales transactions to SAAC. For the Department of the Navy, the Navy International Logistics Control Office (NAVILCO) is the financial administrator for FMS agreements involving U.S. Navy material. As such it acts as the central point of contact between Navy activities and SAAC for detailed financial matters and reports to SAAC all the Navy disbursements made under the FMS program.

SAAC is dependent upon the military departments' performance/delivery reports to reimburse U.S. Navy appropriations that initially financed FMS transactions. NAVILCO submits the FMS Detail Delivery Card (N)RCS, DD-COMP (M) 1517 report as the basis for reporting deliveries to SAAC.

Although the foreign government is responsible for the shipment and payment of FMS material, the U.S. Government is frequently requested to ship the material and charge the foreign government for the transportation charges incurred. The FMS Delivery Report, DD 1517, identifies for each sales order (FMS case, the following information: The Delivery Term Code (DTC), based upon the sales agreement, identifies how far the U.S. agreed to ship the FMS material; the Mode of Shipment Code identifies the initial method of movement by the shipping activity; the Transportation Billing Code (TBC) specifies how the FMS material was actually transported and how far the U.S. Government actually transported the FMS material; and the Delivery Source Code(DSC) specifies the type and source from which the material was shipped. With this data SAAC can compute the applicable packing, crating, handling and transportation (PCH&T) costs, referred to as accessorial costs, associated with a specific FMS case. SAAC then reimburses NAVILCO for all the Navy packing, crating, and handling (PC&H) costs and small package shipment expenditures, reimburses the Navy Management Fund as administered by the Office of the Chief of Naval Operations (CNO) for all the Navy Parcel Post shipments, and credits the FMS transportation Trust Fund Account for all the other Navy movement expenditures which, when identified by

the Transportation Operating Agencies, (TOA), debits this account. [7,8]

The Navy's objective is to recover all the accessorial costs incurred by FMS transactions. The GAO reported on 17 May 1979 that disbursements made by the military departments for FMS transactions were not always reported to SAAC in sufficient detail to enable a proper accounting to foreign governments on how their funds were spent. The Navy identified the country and sales agreement for FMS transactions totaling \$2 billion, but did not identify the specific articles or services paid for by these funds. [5:5]

Despite the level of detail incorporated in the performance/delivery reporting documentation, it appears that the Navy reporting methodology is insufficient to recover the costs of accessorial services. In fact, a Defense Audit Service (DAS) report dated October 1980 identified that DOD appropriations had not been reimbursed by \$23.8 million for FMS stock material shipped but not billed by the Navy. [9:15] The Navy is continuing to review its reporting methodology to effect the full recoupment of accessorial costs.

C. OBJECTIVE OF RESEARCH

The principle objective of this research is to analyze how the Navy documents FMS transactions, what is being reported to SAAC, and why this is insufficient to substantiate the reimbursement of accessorial costs. The secondary objective is

to propose methods for the Navy to improve the reporting system and effect the recoupment of accessorial costs.

D. ASSUMPTIONS

To provide a workable framework, a set of assumptions have been established to limit the scope of research. The assumptions are as follows:

1. Although foreign policy viewpoints within the Executive and Legislative branches of the government frequently fluctuate, the organizational structure and administrative policies encompassing FMS remain independent.
2. The current policies, including pricing policies, and directives of the Defense Security Assistance Agency (DSAA) provide the necessary and explicit guidance to operate an effective FMS program.

The scope of the research was limited to the sale, movement and reporting of DOD stocked material on a reimbursable cash basis to foreign governments.

E. METHODOLOGY

Data for this research was gained from personal interviews with personnel from the Naval Supply Systems Command (NAVSUP), NAVILCO, SAAC, and the Naval Supply Center, Oakland; review of memoranda, point papers, messages, instructions and applicable DOD manuals; review of audit reports generated by the GAO and the Defense Audit Service; and research reports and theses written on FMS in the areas of financial management and accounting.

This study primarily consists of the author's views gathered during the interviews and the review of the literature. The

sources used in this study are acknowledged and referenced at the end of the study.

F. OUTLINE

To provide a basic knowledge of the development of FMS, Chapter II provides a historical and organizational synopsis of the FMS program.

Since there is no separate, dedicated logistics system for FMS shipments, a review of the modifications DOD has employed to provide and move FMS material within the existing DOD logistics organization is discussed in Chapter III.

Chapter IV examines the current legislative guidance and DOD pricing policies for FMS transactions. A detailed presentation is also provided for the accessorial surcharge methodology.

Chapter V provides a general description of the financial administration of FMS. The specific accounting and billing requirements and procedures for both NAVILCO and SAAC are discussed. The interface between NAVILCO and SAAC concerning the administration of FMS transactions will also be presented.

A comparison of the performance/delivery reporting documentation requirements established by DOD to the reporting documentation being transmitted by NAVILCO to SAAC is presented in Chapter VI. Reasons for the differences are discussed and the impact noted on the recovery of accessorial costs.

Chapter VII identifies the Navy's current position concerning performance reporting, the reporting changes effected

by this view, and the net effect on the recovery of accessorial costs.

In summary, this research basically examines the Navy's responsibilities for accurately reporting expenditures to SAAC under the current DOD methods for administering the FMS program. Resolutions for the problems are specifically addressed in Chapter VIII.

II. BACKGROUND OF FMS

A. FMS POLICY - AN HISTORICAL SYNOPSIS

The United States has been formally assisting friendly nations in establishing and maintaining adequate defense postures for internal security and resisting external aggression since World War II. This assistance has been provided on the premise that the security and economic well-being of friendly foreign countries is essential to U.S. security. Assistance has been provided in a variety of ways, including the sale or grant aid of defense articles and services, economic aid, and commodity grants. [10: part 1; A-1]

In the 1950's, under the Mutual Security Acts of 1951 and 1954, the assistance consisted mainly of surplus military equipment, transferred through grants-in-aid or loans. [11: II-2] The depletion of surplus World War II stock, the myriad of technological advances in military hardware since World War II, the concern over the international communist movement, and the increasing capability of some allies to financially support their defense postures led to the enactment of the Foreign Assistance Act (FAA) of 1961. Government agencies that furnished assistance were to be reimbursed from funds available under this act in an amount equal to the value of the articles or services. The Foreign Assistance Act of 1962 altered this to read "not less than the value." The current

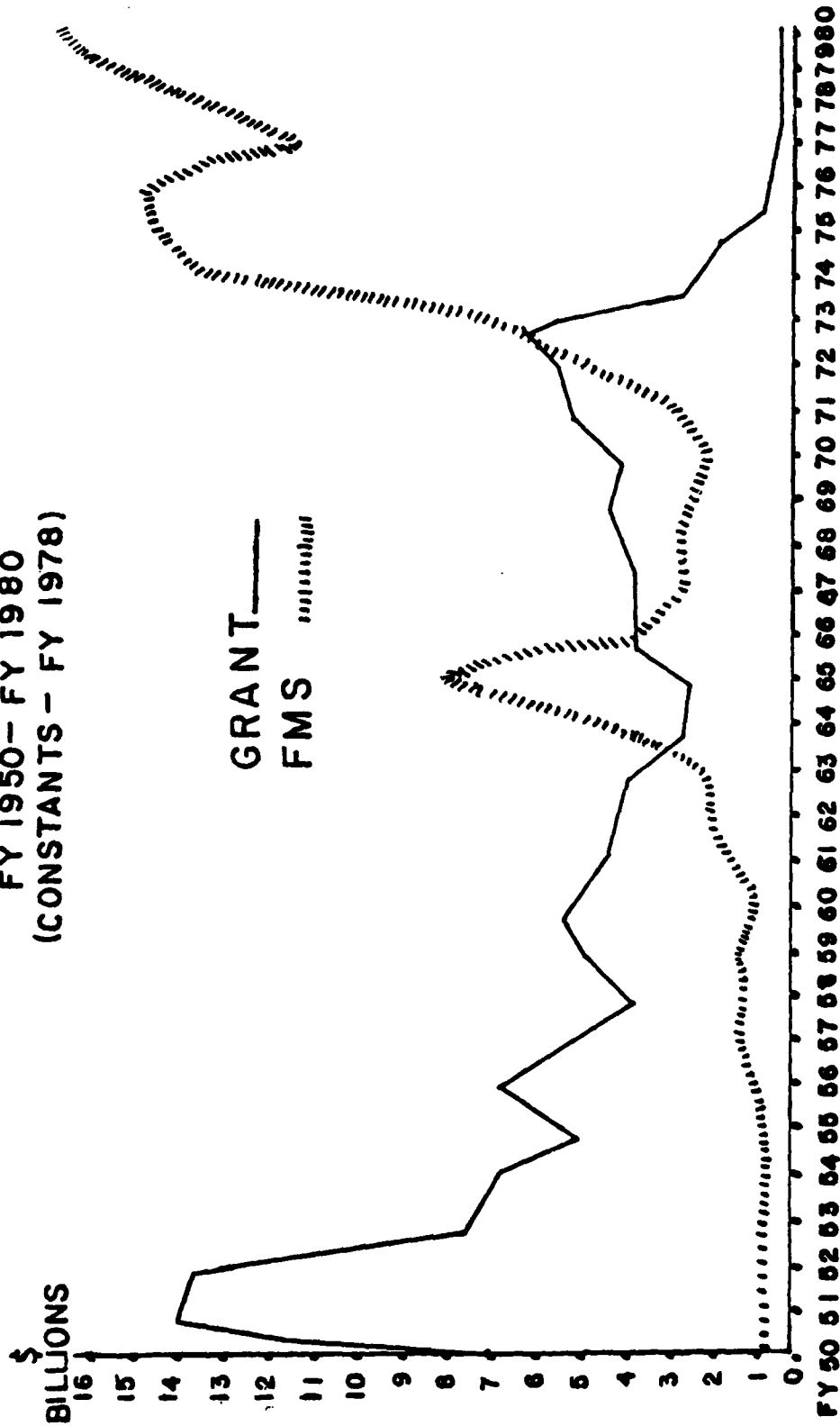
legislative basis for reimbursable export sales were provided by this act, along with comprehensive eligibility requirements for both the Military Assistance Program (MAP) and for Foreign Military Sales (FMS). [12: 1-3]

Arms sales escalated under the FMS program during the 1960's when the impetus of security assistance changed from grant military aid to foreign military sales of defense articles and services to foreign governments. [11: II-2] For the first time FMS agreements actually exceeded the dollar value of the grant military aid program. [Figure 1]

With the growth of FMS, the cost recovery efforts also grew in importance. In 1968 FMS was separated from the Foreign Assistance Program through the passage of the Foreign Military Sales Act. This act consolidated the administrative and general legislative authority dealing with military sales by the U.S. Government to meet the growing demands of the expanding sales program. The FMS Act also maintained that the U.S. Government was to receive no less than the value of materials and services sold to foreign governments.

Although the statutory language pertaining to FMS cost recovery changed many times, Department of Defense pricing policies for FMS have always provided for the recoupment of all identifiable DOD direct and indirect costs of each sale. [13: 7] In 1969 the General Accounting Office supported this view in a report to the Congress entitled, "Omission of Significant Costs From Charges to the Federal Republic of Germany for Pilot Training." [B-167363]

FMS/GRANT PROGRAMS
FY 1950 - FY 1980
(CONSTANTS - FY 1978)



SOURCE: SAAC FACT SHEET Figure I

Although neither the FAA (Foreign Assistance Act) nor its legislative history defines value as it relates to defense services, we believe that the FAA contemplates recovery of full costs for defense services which are sold to foreign customers. We believe therefore that the selling prices for defense services should be established on the basis of the full cost pricing method and that failure to adopt that method provides DOD with many options for pricing training services. Pricing under the full cost pricing method, in our opinion, would establish a selling price for defense services that recovers all costs incurred, whether of a direct or an indirect nature. [13: 7]

Increasing congressional and public attention focused on the dramatic increase in the volume of foreign military sales during the 1970's. The rapid growth, from \$1.2 billion in FY 1970 to \$13.9 billion in FY 1975 dramatized the need for adequate measures to recoup the costs of sales of defense articles and services.

The enactment of the International Security Assistance and Arms Export Control Act of 1976 amended the Foreign Assistance Act of 1961 and the Foreign Military Sales Act of 1968. The Foreign Military Sales Act of 1968 was also renamed the Arms Export Control Act (AECA). Through this act, Congress clarified the pricing policy and strengthened the cost recovery requirements of FMS by authorizing appropriate charges for administrative costs, accessorial costs (for example, packing, handling, crating, transporting, port handling, and pre-positioning), use of government-owned equipment and/or facilities (asset use), and non-recurring costs (for example, research, development, and non-recurring production and other certain allocatable costs). The legislative purpose of these changes was to ensure that all sales

include a fair share of all indirect costs so that there were no longer any elements of subsidy in the FMS program.

Although there has not been any subsequent legislation concerning the cost recovery of FMS since the passage of the Arms Export Control Act of 1976 (AECA), this does not purport a Congressional lack of interest in this subject, nor does it imply that a perfected cost recovery program is operational. Rather, continuous review, audits, and evaluations are performed routinely to develop and perfect cost recovery methodologies to implement the current legislation.

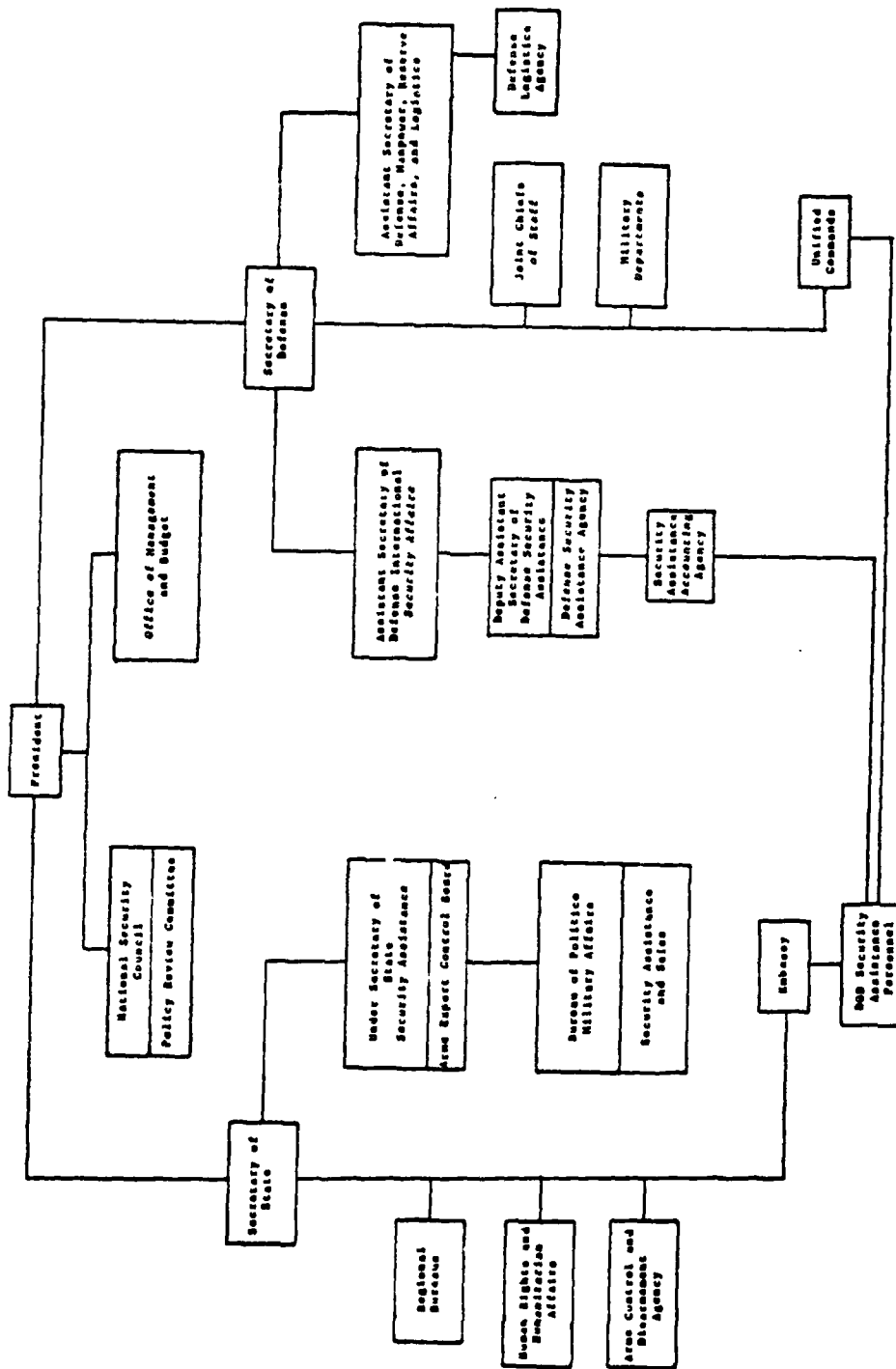
B. FMS LEGISLATIVE AUTHORITY AND ACTORS WITHIN THE EXECUTIVE BRANCH

The legislative and administrative authority for FMS is provided by the Arms Export Control Act of 1976 (AECA). The Foreign Military Sales Financial Program requires an annual Congressional authorization and appropriation. Foreign military cash sales are also addressed in these legislations, not from a funding standpoint, but from a reporting, control and oversight perspective. The Arms Export Control Act of 1976 (AECA) contains the annual dollar authorization for the FMS financing program. This act is amended yearly by "The International Security Assistance Act of (year)." FMS appropriations are included in the annual "Foreign Assistance and Related Programs Appropriations Act."

[14: 3-1, 3-2, 3-3]

Although numerous governmental agencies, departments, and organizations have various FMS responsibilities as established by the constitution, authorization acts, and appropriation acts,

Principle Executive Branch Organizations Involved In Arms Transfer Decisionmaking



Source: GAO Report ID-70-22, and as Modified by the Author

Figure II

only key organizations within the Executive Office of the President having an impact on FMS will be discussed here. Figure II identifies the chain of command within this branch and the relationships between these organizations.

As established by the Constitution, the President is the chief arbiter in matters of foreign policy. In this regard the President has the final responsibility of determining foreign government and international organization eligibility to purchase U.S. defense articles and services. Under the AECA the President is authorized to sell to eligible foreign governments or international organizations defense articles from DOD stocks or to procure from American industry and sell defense articles and services. [12: 1-3]

Under the direction of the President, the Secretary of State is responsible for the continuous supervision and general direction of foreign military sales, to include "whether there shall be a program or a sale and, if so, the amount thereof." [10: Part 1; B-1] There are many organizations within the State Department which review, advise, and assist the Secretary of State in integrating defense and foreign policy issues regarding foreign military sales.

The FMS program is administered by the Department of Defense. The Secretary of Defense has primary responsibility for:

- (1) Determination of military end-item requirements;
- (2) Procurement of military equipment in a manner that permits its integration with service programs;

- (3) Supervision of end-item used by the recipient country in the case of equipment provided under MAP;
- (4) Movement and delivery of military end items; and
- (5) Within the Department of Defense, the performance of any other function with respect to providing Military Assistance and Foreign Military Sales. [10: Part 1; B-1]

The Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) is responsible for developing delivery policy for the movement of FMS cargo. Implementation delivery policy is accomplished by the military departments and DOD agencies.

The Assistant Secretary of Defense, International Security Affairs (ASD/ISA) acts for the Secretary of Defense and is the principle representative and spokesman of FMS matters. [15: 2] The Deputy Assistant Secretary of Defense, Security Assistance (DASD/ISA) is the Director of the Defense Security Assistance Agency (DSAA), which is responsible for the direction and supervision of the FMS program administration and its implementation. DSAA responsibilities include:

- a. Administration and supervision of security assistance planning and programs.
- b. Coordination of the formulation and execution of security assistance programs with other governmental agencies under the guidance of the ASD/ISA.
- c. Conducting international logistics and sales negotiations with foreign countries.
- d. Serve as the DOD focal point for liaison with U.S. industry with regard to security assistance activities.
- e. Managing the credit financing program.

- f. Developing and promulgating security assistance procedures, such as the MASM.
- g. Developing and operating the data processing system and maintaining the data base required by all levels of management for the security assistance program.
- h. Making determinations with respect to the allocation of FMS administration funds. [14: 5-24]

C. ADMINISTRATIVE CONTROL OF FMS FUNDS

Prior to October, 1976 each military department was responsible for procuring, accounting, disbursing, billing, and collecting funds for FMS cases from foreign governments. With the rapid growth of FMS overwhelming the military department's financial management systems, GAO criticizing DOD for not being able to identify the indirect costs associated with the administration of FMS cases, and foreign governments complaining about the numerous bills received from the U.S., DOD began to centralize the financial management of the FMS program.

The Department of the Air Force has been designated as the Executive Agent for operating the DOD centralized billing, collecting and trust fund accounting system for security assistance. To act as the centralized accounting, processing office for all the military departments and as the DOD financial executive for the FMS program, the Security Assistance Accounting Center (SAAC) was established as a separate organizational component of, and located with, the Air Force Accounting and Finance Center (AFAFC), Denver, Colorado. SAAC implements the DOD Security Assistance Financial Management Program by performing the following functions:

- a. Serve as the central point of contact within DOD for all FMS related financial inquiries from USG activities and foreign governments, and for procedural and operational financial inquiries from DOD components.
- b. Prepare, review, and authenticate all DOD FMS bills, and calculate and assess interest due on delinquent debts.
- c. Maintain a centralized, automated FMS financial data system.
- d. Analyze FMS Letters of Offer and Acceptance to ensure the adequacy of financial arrangements.
- e. Operate the centralized system for DOD-wide FMS forecasting, delivery reporting, billing, collecting, and trust fund management.
- f. Ensure adequate interface of DOD-wide logistical and financial systems.
- g. Perform trust fund accounting and monitor FMS trust fund balances to ensure adequacy of foreign countries' deposits and prompt reimbursement of DOD components' appropriations.
- h. Conduct continuing analysis and necessary redesign of FMS financial systems to ensure adequacy, maximum standardization, and simplification.
- i. Provide assistance and guidance to DOD components and foreign customers relative to the financial execution of the FMS program [16: 1,2,3].

In addition to these responsibilities, SAAC is also responsible as the primary data base for reporting FMS program status to Congress, the National Security Council (NSC), Office of Management and Budget (OMB), and other executive agencies.

The first centralized billing statement was achieved in May 1977, when SAAC released its first billing statement to all FMS customers. It was 66,400 pages long and requested customer payments of \$2.1 billion [11: VII-2].

D. U.S. NAVY ORGANIZATION FOR FMS

After obtaining sale approval from the Departments of Defense and State, DSAA directs all the implementing actions to the military department having cognizance of the particular product or service. (Figure III)

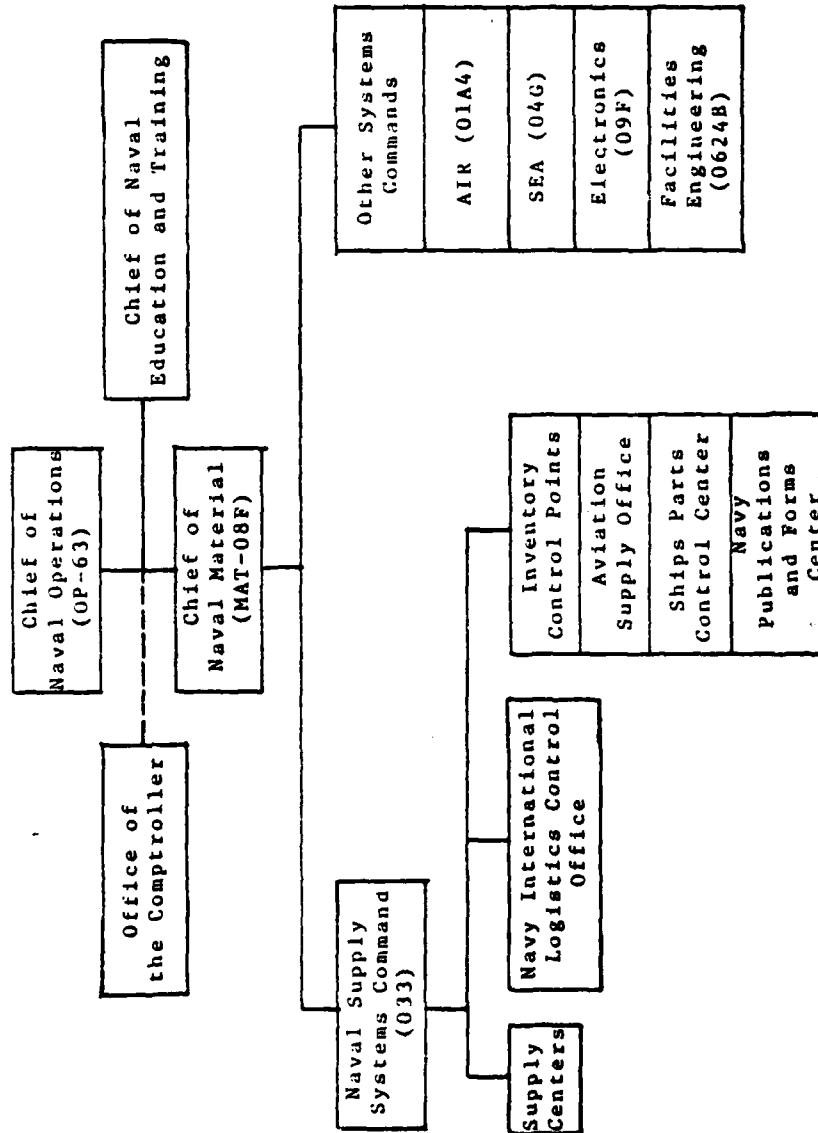
For the Department of the Navy and within the Office of the Chief of Naval Operations, the Security Assistance Division (Code OP-63) negotiates with foreign governments, prepares the sales agreement document DD Form 1513, the Letter of Offer and Acceptance (LOA), and monitors the FMS program.

The Naval Material Command, Security Assistance Office, assigns FMS requests to commodity-oriented systems commands (SYSCOMS), and coordinates and monitors the development and implementation of FMS cases. As the Case Administering Offices (CAO), the various SYSCOMS perform program and support planning, prepare price and availability information, and provide the material and services required by the foreign governments in the FMS case.

In implementing FMS cases the U.S. Navy utilizes the same resources and support organizations that are employed to manage and implement U.S. Navy support programs. These organizations can accommodate different types of FMS cases:

- 1) Foreign investment in the DOD logistics pipeline
- 2) Sale of DOD material stock, and
- 3) Sales from procurements.

U.S. Navy Organization for Security Assistance



Source: How to Conduct Foreign Military Sales

Figure III

The author is concerned with the recoupment of accessorial costs associated with the sale of DOD stocked material and the following chapters are directed to this type of FMS case.

III. FMS CASE IMPLEMENTATION--MATERIAL MOVEMENT

A. INTRODUCTION

Many FMS program requirements can be satisfied by the provisioning of material from DOD stocks. Within the DOD supply system the administration of DOD stocked material is classified as secondary item management. Secondary items are considered to be all items not defined as major items, (such as aircraft, ships, tanks, and weapon systems), and are segregated into two categories:

1. Stock fund items--usually low-cost and expendable items. These items are brought into the DOD inventory through monies provided by a revolving "Stock Fund Account" which has its monies regenerated through the sale of stocks.
2. Non stock fund or other inventory items--generally repairable and nonexpendable items, (such as engines and generators). These type of items are brought into the DOD inventory through use of special "Procurement Appropriations for Secondary Items." [14: 6-8,9]

Since there is no separate, dedicated logistics system for FMS, specific DOD policies have been established for the provisioning of DOD material for FMS cases. These policies, along with a description of the DOD logistics organization and the documentation requirements to manage FMS transactions will be reviewed in this chapter.

B. FMS IMPLEMENTATION POLICIES

DOD policy calls for a determination to be made that the sale of a defense item will not degrade U.S. defense efforts by taking

needed equipment from U.S. stocks, unless the security or foreign policy requirements dictate that the sale of the item is in the U.S. national interest.

The Secretary of Defense on 20 September, 1972, prescribed policies for allocating defense material between U.S. Forces and international security requirements. Military departments are tasked with the responsibility of determining how FMS requests are met. Normally FMS requests are filled by production contracts; however, the provisioning of DOD material from stock for FMS cases can be approved provided the operational readiness posture of the U.S. active or reserve forces is not significantly lowered and the payback can be accomplished in a reasonable period of time. [10: part III, C-9]

Some extremely difficult determinations not made by the military departments are referred to the Director, Defense Security Assistance Agency (DSAA) for resolution. Cases where agreement cannot be reached within DSAA concerning the provisioning of defense material is referred to the Secretary of Defense for decision in accordance with the procedures established by Deputy Secretary of Defense Memorandum, 14 December 1976, Subject: "Allocation of Defense Material and Services Between U.S. and International Requirements." National security considerations and foreign policy objectives may indicate a requirement to deviate from the normal DOD policy, and expedite the delivery of DOD diverted material to a foreign purchaser even though the assessment of the situation would appear to have

an undesirable effect on the combat readiness of U.S. Forces. Section 21(1) of the Arms Export Control Act (AECA) requires a report by the President to the Congress for those FMS proposals. the approval of which have a significant, adverse effect on the combat readiness of U.S. Forces. [10: part III, C-9a]

DOD policy, with respect to transportation and delivery of FMS material, states that normally these actions will be accomplished by the foreign government. Most foreign governments utilize the services of a contracted freight forwarder to manage all the aspects of transportation and delivery from the U.S. to the ultimate in-country destination.

The initial point of shipment, is the point of origin. The point of delivery is the point where responsibility for the physical movement of the FMS material passes from the U.S. Government to the foreign government. The CONUS point of origin of the material is normally the point of delivery to the customer or the freight forwarder agent. For material supplied from DOD stocks, this point is the DOD depot loading facility or the nearest post office facility in the case of parcel post. Shipment of FMS material from the point of origin to the customer's agent, within CONUS, is usually accommodated by DOD and specified clearly in DD Form 1513, Letter of Offer and Acceptance (LOA). When circumstances dictate, designation of other points of delivery (such as other DOD military installations in CONUS or overseas, overseas depots or overseas contractor's plant) must be clearly specified in DD 1513.

[10: part III, N-2] [17: 10]

Title to FMS material will pass at the initial point of shipment unless otherwise specified in DD 1513. For material supplied from DOD stock, transfer will occur at the U.S. depot. For excess material, transfer will occur at the location at which the material is being offered for sale.

Classified and certain hazardous material cannot be transported by a freight forwarder or a common carrier because its nature requires that it be moved under U.S. control. Shipment of this material is usually made within the Defense Transportation System (DTS) as a standard exception to the FMS transportation policy. Air cargo that exceeds the weight and cube capacity of commercial sources may be delivered through the DTS using military aircraft. All exceptions to the FMS transportation policy will be noted on the DD 1513 on a case-by-case basis and approved by DSAA with concurrence of ASD/MRA&L.

FMS shipments are consolidated to the greatest extent possible consistent with foreign government requirements and as specified in the DD 1513.

DOD policy, as incorporated in the DD 1513, states that the foreign government is responsible for obtaining the insurance coverage, customers' clearances, and export licenses required for FMS shipments.

C. CASE IMPLEMENTATION--MATERIAL REQUEST AND DOCUMENTATION PROCEDURES

The Letter of Offer and Acceptance (LOA), when signed, is an official agreement between the U.S. and a foreign government identifying specific material requirements and the conditions and terms of the sale. The DD 1513 and the attached enclosures must provide sufficient detailed information to ensure that the financial and logistical obligations of the U.S. and the foreign government are clearly understood. (Appendix C contains a DD 1513 and the detailed instructions for completing the DD 1513.)

Although the DD 1513 provides general information concerning an FMS case, more detailed information is required at the field implementing level. To satisfy this need the Case Administration Office (CAO) provides a case directive document which is used to implement an approved DD 1513. Within this document the following information is normally provided:

- a. Obligational authority control number, military department performing appropriations to be cited.
- b. Delivery/shipping instructions: Issue priority, force activity designator, delivery term code, option code, freight forwarder code, mark for code, type of assistance code, media and status code, required availability dates, project codes, etc. [14: 9-23]

The case directive and the coded blocks of the DD 1513 provide information for the development of the Military Standard Requisition and Issue Procedures (MILSTRIP) requisition. This MILSTRIP format is used to translate overall descriptions into specific coded material orders in the form of requisition

documents. The MILSTRIP requisition format can then be utilized in high-speed communications and automated data processing systems for use in the requisitioning and issuing of DOD material. [18: part II, 2]

Figure IV portrays the specific FMS codes used in completing a MILSTRIP requisition document. The remaining fields not addressed are completed similarly to U.S. requisitions.

The following indicates the MILSTRIP requisition card columns where specific modifications as shown in Figure IV are made for FMS transactions:

Column 30 contains the U.S. implementing agency code U.S. Navy = P.

Columns 31 and 32 contain a two position code to designate the purchasing country.

Column 33 contains the "mark for" code to identify the customer address in-country.

Column 34 contains the delivery term code which tells shippers how far the U.S. Government will manage the transportation and who will pay the carriers. In all cases the foreign government ultimately pays for the transportation, but sometimes the U.S. pays the transportation charges and is then reimbursed by the foreign government.

Column 35 contains the assistance code which identifies the financial methodology to be employed to procure DOD material.

Column 45 designates the foreign government service which is to receive the material.

Column 46 identifies the offer release code which specifies whether shipments are to be automatically released or whether release authority is required from another agency.

Column 47 contains the freight forwarder code identifying the foreign government's agent and the applicable CONUS address.

Columns 48-50 contain the 3 letter case designation code which is used to identify each requisition to a specific agreement.

[illegible]

Source: Naval Supply Systems Command Training Seminar - Foreign Military Sales, Supply-Transportation and as MODIFIED by the AUTHOR

35

MILSTRIP requisitions may be initiated either by the customer country or by a designated U.S. military component. The NAVILCO is designated as the Military Service Requisition Control Office (RCO) for the Navy. As the RCO it either initiates MILSTRIP requisitions or it verifies MILSTRIP requisitions prepared by foreign countries prior to introduction into the U.S. logistics system. [10: part III, F-4], [14: 6-19]

D. STANDARD FMS MATERIAL ISSUING AND SHIPPING PROCEDURE

NAVILCO serves as the connecting link between the foreign customer and the DOD supply system. After NAVILCO validates the MILSTRIP requisition, it routes the requisition to the appropriate Inventory Control Point (ICP). The ICP's representing the DOD logistics organizations include the Army Material Readiness Commands, the Air Logistics Center, the Navy, ICP's, and DOD Depots.

Most Naval oriented items requested by foreign governments are managed within the Naval Supply System. The Naval Supply System is supported by three Navy ICP's. The Aviation Supply Office (ASO), the Navy Publications and Forms Center (NPFC), and the Ships Parts Control Center (SPCC). When FMS MILSTRIP requisitions are received, the cognizant inventory manager at the ICP determines whether material will be issued from stock or whether the ICP must buy the item. The author has limited the scope of this study to those requisitions satisfied by stock issues. The ICP's forward Material Release Order (MRO) documents to applicable stock points with issuing instructions.

The ICP's then generate a suspense file indicating material issue and adjust their inventory records accordingly. [19: 0]

The stock points are responsible for the proper packaging, marking, shipping, and notification of shipment of FMS material. The MILSTRIP requisition contains all the applicable coded data to implement these actions.

Where and how the material will be shipped was agreed upon and included in blocks 19, 20, 33, and 34 of the DD 1513. Instructions to complete these blocks are enclosed as Appendix D. This data, perpetuated in the MILSTRIP format, is used by shipping activities to implement material movement.

The standard DOD delivery policy for FMS requisitions requires a delivery term code (DTC) of 4 in column 34 of the MILSTRIP document, to indicate that FMS material is to be shipped from the stock point to the freight forwarder designated in column 47. A DTC of 4 also instructs the shipping activity to transport the material under a collect commercial bill of lading (CCBL) to the foreign government's freight forwarder. Freight charges would then be paid by the freight forwarder. (Appendix D)

Modifications of this policy result when shipments cannot be effected by collect CBL, due to tariff restrictions or refusal of carriers to accept collect freight shipments. Very small shipments are more readily acceptable to damage and don't provide enough profit incentive for less-than-truckload (LTL) carriers to accept these shipments. To compensate for this,

transportation officers at shipping activities are authorized to utilize either the U.S. Postal Service parcel post facilities or commercial package carrier equivalents for shipments weighing 100 pounds or less and 141 inches or less in combined length and girth. [10: part III, F-9]

Within the MILSTRIP requisition are both the "mark for" and "ship to " Military Assistance Program Address Codes (MAPAC). The MAPAC is constructed by using data contained in the requisition number, card column 30-43, and the supplementary address, card column 45-50. The Military Assistance Program Address Directory (MAPAD), DD 5105.38D, specifies clear addresses for these codes, for the movement of material, and the distribution of documents and FMS reports.

A return receipt of all U.S. Parcel Post or commercial FMS shipments is required to provide adequate proof of shipment and passage of the title. Recoupment of these expenses is accomplished through the accessorial charges applied to the cost of the material shipped.

E. FMS MATERIAL MOVEMENT EXCEPTIONS--USE OF THE DEFENSE TRANSPORTATION SYSTEM (DTS)

Exceptions to the standard delivery policy, approved on a case-by-case basis by DSAA, is perpetuated in the MILSTRIP requisition. A DTC other than 4 authorizes the use of transportation arranged and prepaid by the U.S. Government. The DTC also indicates how far the U.S is responsible for payment of freight and handling charges.

U.S. DOD-arranged transportation under U.S. DOD control on a Government Bill of Lading (GBL) may be specifically authorized for firearms, explosives, lethal chemicals, or other hazardous material to the port of exit. A DTC of number 5 would apply in this case. This method is not normally authorized for FMS material unless shipments by CBL are impractical. The U.S. Government cost of transporting and handling the material is reimbursed by the application of accessorial surcharges.

MILSTRIP requisitions with DTC's other than 4 are authorized to use the Defense Transportation System (DTS). The DTS consists of the:

U.S. Army's Military Traffic Management Command (MTMC)--the single manager for military traffic, land transportation, and common-user ocean terminals within the U.S. and selected overseas locations.

U.S. Navy's Military Sealift Command (MSC)--the single manager for sea transportation.

U.S. Air Force's Military Airlift Command (MAC)--the single manager for air transportation between points in the U.S. and overseas areas, and between and within overseas areas [14: 6-5].

The Military Standard Transportation and Movement Procedures (MILSTAMP) apply to shipments of FMS material transported within the DTS. The purpose of MILSTAMP is to standardize and automate document flows. MILSTAMP uses the MILSTRIP requisition to create and exchange standard shipping data for recording and reporting shipment status, and controlling material movements within the DTS by the assignment

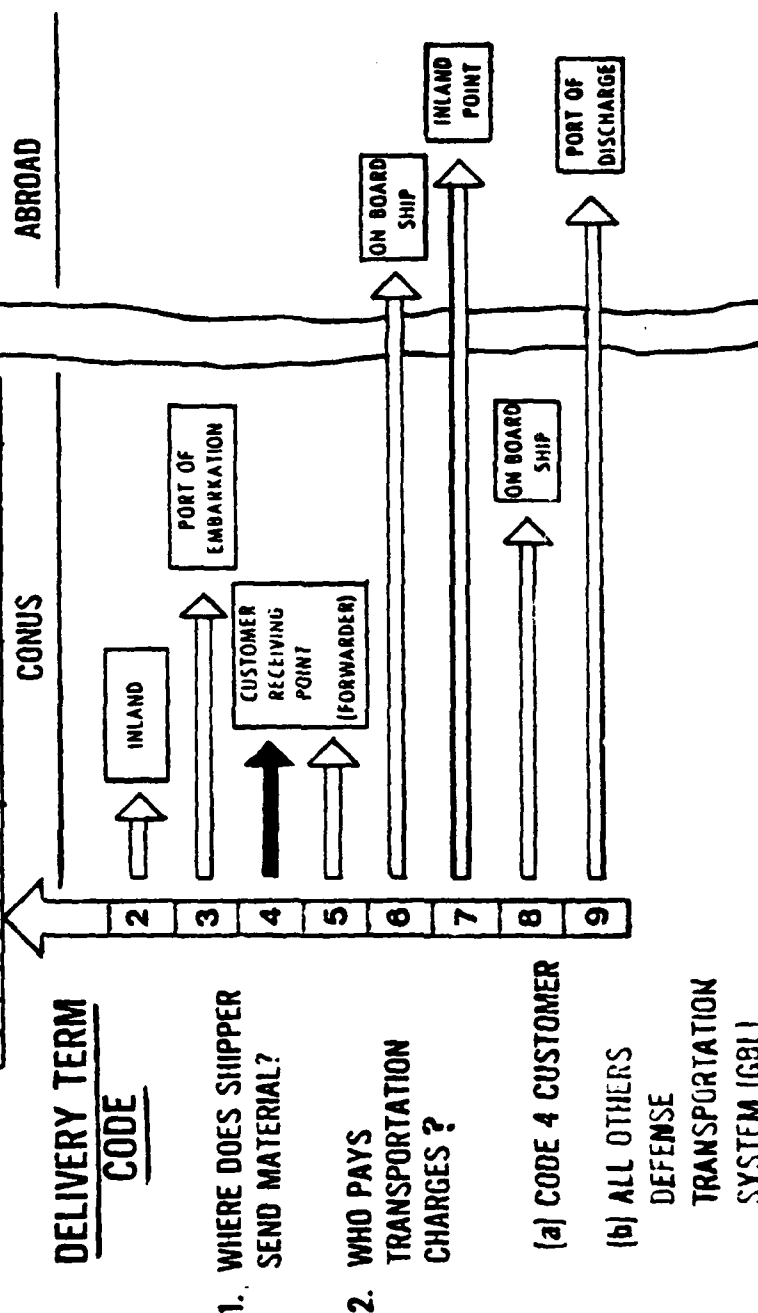
of a transportation control number (TCN) derived from the MILSTRIP data in card columns 30-46. [14: 6-5] When multiple FMS requisitions are consolidated into one shipment unit, only one TCN is assigned to control the movement. The MILSTRIP requisition with the earliest required delivery date (RDD) is utilized to create the TCN which controls the shipment unit from origin to destination within the DTS. [20: K-1]

The "mark for" and "ship to" addresses identified in the MILSTRIP data in addition to the type of material and quantity to be shipped determine the packaging requirements as delineated in DOD instruction 4100.14. The information needed to complete the package marking has also been provided by the MILSTRIP requisition. Packages can then be marked as specified in the requisition and in accordance with standard marking and labeling procedures prescribed in MIL-STD-129.

Although shipments approved for movement through the DTS are made in accordance with the DTC designated on the MILSTRIP requisition, the mode of shipment is based on the transportation priority specified in blocks 60 and 61. The Uniform Material Movement and Issue Priority System (UMMIPS) identifies the relative importance of competing demands for logistics systems resources. It establishes guidance for the ranking of material requirements and incremental time standards for material movement. The two-digit code is based on a combination of the mission designation assigned to the foreign country by the U.S.

Shipment Responsibility--U.S./Customer

DOCUMENT NUMBER										S		SUPP ADD								
SV		REQUISITIONER		DATE		SERIAL		U	F	SV	OR	FF	CASE							
10	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
P	K	S	E	H	B	I	6	8	B	B	I	B	D	A	4	X	X	X	X	X



Source: Naval Supply Systems Command--Training Seminar on FMS

Figure V

Joint Chiefs of Staff (JCS) and the urgency of need for the material as designated by the requisition originator, NAVILCO or the foreign government.

When material is authorized to move within the DTS, DOD is performing a reimbursible service for the FMS customer. Figure V, as prescribed by the DTC, identifies how far the U.S. is responsible for the shipment of the material and at what point the FMS customer is responsible for arranging the onward movement of the material to its destination. Commensurate with the transportation responsibilities are the associated costs. Recoupment of U.S. expenditures is accomplished through the accessorial charges applied to the cost of the material shipped.

To preclude extensive DOD involvement in FMS claim submissions, movement documents are signed by carrier representatives to provide evidence of shipment. The U.S. Government is only required to show that the U.S. has shipped or released the material ordered. Proof of delivery to the in-country destination can only be accomplished when material movement was effected within the DTS. Proof of delivery, as construed to mean constructive delivery, (tender of the material to a specified carrier at point of origin) is not the responsibility of the U.S. Government under CCBL shipment.

F. NOTIFICATION OF MATERIAL MOVEMENT

Notification of material shipment is the responsibility of the stock point shipping the material. After the material

has been shipped, the responsible shipping clerk annotates the mode of shipment and the date the material was shipped on the original (Part 1) MILSTRIP requisition document, 1348-1. The Part 1 is forwarded to the Automated Data Processing Center (ADP) within the shipping activity for inclusion in the Uniform Automatic Data Processing System (UADPS) to update or create the applicable files.

A MILSTRIP shipment status report, AS3, is mechanically produced and dispatched to NAVILCO to report the mode of shipment and the date material was shipped from Navy stock points.

Notification of material shipment by other service stock points is accomplished by the submission of Summary Billing Cards (SBC) and Detail Billing Cards (DBC), commonly referred to as Interdepartmental Billings, (IDB).

Shipment status is then provided to foreign customers by NAVILCO in accordance with MILSTRIP procedures.

Daily Transaction Item Reports (TIR) of material shipments are mechanically produced and transmitted to provide proof of shipment to the originating ICP. This in turn deactivates the suspense file, authorizing the ICP to forward the billing documentation to NAVILCO. The financing and billing procedure associated with FMS deliveries will be discussed in a later chapter.

IV. FMS PRICING

The art of pricing demands a firm grasp of its techniques and a broad knowledge of the many constituent parts involved . . . Although the pricing methodology is relatively simple, estimating the cost elements for allocation to an FMS price can be difficult. [14: 15-25]

A. INTRODUCTION

The DD Form 1513, Letter of Offer and Acceptance (LOA) is the primary document used to convey the estimated FMS case price to the foreign government. In addition, this document identifies the conditions and terms of sale, and the accompanying type of assistance codes which indicate the payment schedule; whether the sale is from DOD stocks or procurement; and whether the sale is to be financed on a cash or credit basis. [10: Part II, G-2] For the purposes of this study, the author's efforts have been directed solely towards cash sales of DOD and service-stocked material.

Price estimates of FMS material, afforded to foreign governments via the DD 1513, consist of a base price and appropriately allocated costs incurred by the U.S. Government relative to the performance of the DD 1513. These estimates provide for the recoupment of all DOD costs and an administrative surcharge for the use of the DOD logistics system.

This chapter examines the current legislative guidance and DOD pricing policies for FMS transactions. The various base prices and associated surcharges which are used in

calculating FMS price estimates for stocked material will be presented. A detailed presentation of the accessorial surcharge methodology will also be provided.

B. CONGRESSIONAL PRICING GUIDANCE

It has always been the intent of Congress that the U.S. Government recoup the full costs incurred for FMS transactions. Prior to the Arms Export Control Act (AECA) of 1976, government agencies that furnished FMS assistance from their appropriations, were reimbursed from funds available under FMS legislation in an amount equal to, or not less than the value of the articles or services sold. [13: 4] Pricing defense articles and services proved to be a complicated proposition because of the difficulties in arriving at the value associated with the various elements that compromise the FMS transaction. The difficulties encountered in determining how much U.S. Government costs should be allocated to a particular FMS transaction was only surpassed by the realization of the lack of uniformity in allocation methodologies practiced by the military departments.

Congress clarified and strengthened the cost recovery requirements with the passage of the Arms Export Control Act. Although the AECA does not attempt to further define the value associated with the various elements that compromise the FMS transaction, it does recognize that various standard pricing methodologies are required to recoup the full cost of providing

various articles. The AECA also addressed the common costs associated with the administration, research and development, production, and the movement of FMS material, and states that appropriate charges will be imposed to recoup these costs. The cost recovery requirements of the AECA are summarized as follows:

1. Defense article not intended to be replaced-- not less than the actual value thereof.
2. Defense article intended to be replaced--estimated cost of replacement of such article, including the contract or production costs less any depreciation in the value of such article.
3. Defense Service--The full cost to the United States in furnishing such service.
4. Procurement for cash sales of defense articles or defense service--The full amount of the contract which will assure the United States against any loss on the contract.

Each of the above sales must include an appropriate charge for:

1. Administrative services, calculated on an average percentage basis to recover the full estimated costs of administering the sales;
2. Any use of government plant and production equipment in connection therewith;
3. A proportionate amount of any nonrecurring costs of research, development, and production of major defense equipment. [13: 6]

C. FMS PRICING POLICIES

As the administrator of the FMS program, DOD has the responsibility for pricing defense articles sold. Accordingly, DOD has established basic policy guidance in the form of DOD directives and instructions. These pricing policies are

provided for price estimating, and for the recoupment of all identifiable DOD direct and common costs associated with each sale.

A Price and Availability (P&A) estimate is developed for every potential foreign customer request for defense material. In general, material offered for sale through an FMS case will be priced following the same cost principles used in pricing defense articles of DOD use, with the addition of added surcharges to ensure:

1. recovery of all cost incurred by DOD components
2. a reasonable contribution to costs incurred in RDT&E and establishing the production facilities for the article
3. an administrative charge for use of the DOD logistic system. [12: 7-3]

This estimated price is the basis for the preparation of the DD 1513, which, when executed, becomes the basic contract between the U.S. Government and the foreign government.

Detailed guidance in DOD Instruction 2140.1 and 2140.2 provides the methodology to compute the appropriate surcharge for the following additional costs:

1. Nonrecurring production costs
2. Nonrecurring RDT&E costs
3. Administrative costs
4. Charges for the use of DOD assets
5. Accessorial costs

Although surcharges are specifically determined, accounted for and reported within DOD, negotiations with foreign

governments for an FMS case are accomplished without breaking out these specific charges. "All charges are to be included in a single price in all presentations made to a foreign government" [21: 3].

D. BASE PRICE COMPUTATION FOR STOCKED MATERIAL

Stock fund material is normally considered consumable or common stock items. The inventory price associated with management charges including first and second destination transportation charges, loss, pilferage, obsolescence, maintenance, and inflation escalation [14: 15-26]. The material base price for FMS customers is the inventory price, less the included second destination transportation charges, if they are more than one-half of one percent of the inventory price. This deduction is accomplished because the FMS customer is responsible for the transportation of material from an ICP (wholesale level) to the ultimate destination [14: 15-14].

Secondary items are budgeted and programmed under the spare and repair part line item or activity in a procurement appropriation. The FMS base price for a secondary item is the inventory price, which includes only the first destination transportation charges, plus a current procurement account inflation figure. [14: 15-16]

Figure portrays the standard format for computing the total FMS estimated price for both stock fund and secondary items. Specific cost formulas to derive each line item are provided in the Department of Defense instruction DODI 2140.1.

COST RECOVERY FORMULAS
FOR BOTH STOCK FUND AND SECONDARY ITEMS

Material base price x no. of units	XXX
Subtotal Material cost	<u>XXX</u>
Plus surcharges:	
Accessorial costs--PC&H and transportation	XXX
Administration charge	XXX
Asset use charge	XXX <u>XXX</u>
Total Estimated cost	<u>XXX</u>

Source: The Management of Security Assistance and as modified
by the author

FIGURE VI

DOD excess material is also available for FMS customers. Categorized by the condition of the material, the inventory price [14: 15-19]. Figure VII portrays the standard format for computing the total FMS estimated price for an excess item.

E. ACCESSORIAL COSTS

The cost recovery formulas depicted by Figures VI and VII included accessorial charges to identify the total cost for a P&E estimate. Accessorial costs, as established by DOD Instruction 7510.4 represent certain expenses incident to issues, sales, and transfers of material which are not included in the standard

COST RECOVERY FORMULA
FOR EXCESS STOCKED MATERIAL

Material base price x no. of units	XXX	
Repair, rehabilitate, or modification costs	XXX	
4% asset use charge if work accomplished at a government installation	XXX	
Subtotal material cost		<u>XXX</u>
Plus surcharges:		
Accessorial charges	XXX	
Administration charges	XXX	
Asset use charges	XXX	<u>XXX</u>
Total estimated costs		<u><u>XXX</u></u>

Source: The Management of Security Assistance and as modified
by the author

Figure VII

price of material. A description of the various types of accessorial costs which may be applicable to FMS shipments follows:

1. Packing, crating and handling costs (PCH)--The costs incurred in DOD facilities for labor, material or services in preparing the materials for shipment from the storage and distribution points.
2. Transportation costs--The cost of DOD provided or financed transportation (land, air, inland and coastwise waterways) in the U.S., and outside the U.S., and overseas transportation by vessel or air; includes parcel post via surface or air.

3. Port loading and unloading costs--The cost of DOD provided or financed labor, material or services for loading, unloading, and handling at the ports of embarking and debarkation.
4. Positioning costs--The transportation and port loading and unloading costs incurred in prepositioning items in the supply distribution system of a military department at locations outside the U.S., in anticipation of support to authorized foreign governments. [22: 2]

Charges for accessorial costs have always been dependent upon the type of item sold and the unit price associated with the material. Ammunition, bulk POL, excess material or items having a unit price of \$10,00 or exceeding this threshold figure have been exempted from the standard accessorial rates applied to the inventory price of the item. Instead, actual or estimated costs for port loading, unloading, and transportation were used when a determination was made by the supplying activity, so that a lower and more equitable charge would result.

The transportation trust fund account, maintained by SAAC, is credited with collections received that are based on the surcharge rates when military departments notify SAAC of material delivery. Credit entries are also noted for actual costs incurred for material shipped through the Defense Transportation System. The transportation account is debited when Transportation Operating Agencies (TOA) forward billing documents to SAAC for actual transportation costs. In 1978 an estimated \$7 million balance in the transportation account could only be attributed to an excessive surcharge rate structure or TOA's not billing SAAC.

In 1978 a systems review performed by the systems development branch of SAAC concluded that inefficient military department billing systems resulted in the transportation account balance [23: 1]. Supportive of this claim was the Air Force audit findings that were initiated in September of 1978.

Because of a lack of adequate procedural guidance, transportation charges for 91 percent of the sampled shipments over \$10,00 (which moved within the Defense Transportation System) were not billed the customers. As a result, approximately \$572,000 in Air Force costs had not been recouped [24: 3]

A proposal by Jerry Witherington, at that time the chief of the systems development branch of SAAC, suggested that SAAC automatically compute transportation charges for all FMS shipments regardless of the unit price [25: 1] Material exceeding the \$10,000 threshold would be charged the standard rate up to \$10,000, and 25% of the standard percentage rate would be charged on the portion \$10,000 and over.

The Defense Audit Service (DAS) was requested by the Acting Deputy Assistant Secretary of Defense (Management Systems), Office of the Assistant Secretary of Defense (Comptroller) to review the present billing systems [26: 1]. Audit (9FA-075) noted many instances where improvements were needed in the system for charging FMS customers for transportation costs and for reimbursing TOA's for transportation costs incurred. The DAS audit report also indicated that

Foreign Military Sales transportation costs of about \$750,000 were included in billings to the Army because the edit system used by the Military Sealift Command (MSC) was insufficient to detect erroneously coded FMS transportation transactions.

The Army rejected the bills because they were chargeable to the SAAC for reimbursement from FMS transportation funds. Also, port discharge costs of about \$36,000 were not correctly reported to SAAC. Consequently, the costs were not accepted by SAAC and the FMS customers were not billed. [27: 12]

DAS also suggested that actual transportation costs be charged directly to the respective FMS cases rather than charge cost estimates developed from standard rates applied against the prices of delivered items. Conceptually this would be the ideal methodology to employ, however SAAC, DSAA, and ASD (Comptroller) had reservations as to whether such a procedure would be cost effective. [28: 1], [29: 1], [30: 1] The Deputy Assistant Secretary of Defense (Management Systems), Office of the Assistant Secretary of Defense (Comptroller) provisionally approved the proposed surcharge system. The provisional approval remains in effect until the Air Force completes a study of the cost effectiveness of billing actual transportation costs. [31: 1] Implementation of this proposal was effected in June 1981.

F. STANDARD PERCENTAGE RATES FOR ACCESSORIAL SURCHARGES

Standard PC&H percentage rates are applied to the inventory price of all material sold from DOD and service stocks to cover the labor, material, and service costs incurred by DOD components. A PC&H rate of 3.5 percent is added to the inventory price of material with a unit price of \$50,000 or less. An additional charge of 1 percent is computed for that portion above \$50,000. Figure VIII exemplifies this procedure.

DOD components apply the rates contained in Figure IX to the selling price of the material to estimate the price for the

use of the DOD Transportation System and Parcel Post shipments. An example of this procedure is portrayed in Figure VIII.

Nonexcess material provided from DOD storage points located outside CONUS to FMS customers will be charged prepositioning costs equivalent to the rates identified by Figure IX.

MATERIAL MOVEMENT EXAMPLE

MATERIAL UNIT INVENTORY PRICE \$62,000

\$50,000 @ 3.5% = \$1,750

\$12,000 @ 1.0% = \$ 120

Total PC&H\$1870

MATERIAL FORWARDED TO ITALY UNDER DELIVERY TERM CODE 6--
Movement from port of origin to and including ocean transportation to overseas port of discharge

\$10,000 @ 10.25% = \$1,025

\$52,000 @ .025% = \$1,300

Total Transportation Charge\$2325

Total Accessorial Charge\$4195

Source: Author

Figure VIII

FMS pricing has been established to recover the inventory price plus the overhead and other costs that have been incurred by the U.S. Government as a result of serving the FMS customer. Foreign governments acknowledge that the figures on the DD 1513

Figure IX

STANDARD PERCENTAGE RATIOS

	<u>Percentage</u>
a. Delivery Code 5--DOD movement to the port of exit (includes CONUS parcel post shipments to a freight forwarder)	3.75
b. Delivery Code 6--DOD movement from point of origin to and including ocean transportation to overseas port of discharge:	
(1) To Europe, Latin America and Mediterranean Ports	10.25
(2) To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African Ports (other than Mediterranean), and Near East	12.25
c. Delivery Code 7--DOD movement from point of origin to and including inland carrier delivery to the specified inland location (includes overseas movement of parcel shipments via the Military Postal Service through APO/FPO channels:	
(1) To Europe, Latin America and Mediterranean Ports	14.25
(2) To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African Ports (other than Mediterranean), and Near East	16.25
d. Delivery Code 8--DOD movement from point of origin to and including unloading, handling, and storage aboard vessel at port of exit	6.25
e. Delivery Code 9--DOD movement from point of origin to and including vessel discharge at the port of discharge:	
(1) To Europe, Latin America and Mediterranean Ports	12.25
(2) To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African Ports (other than Mediterranean), and Near East	13.25

Source: Department of Defense Instruction 2140.1

are estimated prices, and that to assure all direct and common costs are covered in the DOD price, final adjustments will take place after delivery of the material. The final billing process to accommodate these adjustments will be discussed in a later chapter.

V. THE FINANCIAL ADMINISTRATION OF FMS

A. INTRODUCTION

There are two primary methods of financing FMS transactions, the direct citation method and the reimbursable method. When an FMS case requires materials and services which are to be commercially procured for the FMS order, the direct citation of the FMS Trust Fund accounting data, established exclusively for the FMS case, will be applied. In accordance with DOD Instruction 2140.1, new procurement actions should be accomplished to the maximum extent feasible and appropriate through direct citation.

Most materials and services requested by foreign governments are either stocked and supplied by DOD or combined with DOD procurement orders. In either case, the cognizant military service or DOD agency cites its appropriated funds as the financing source. The DOD component's appropriation fund is subsequently reimbursed by SAAC with funds received from the applicable foreign government. The efforts of the author have been directed at the reimbursable method of financing FMS transactions, and the recoument of Operations and Maintenance, Navy (O&MN) appropriated funds when using this method.

Accounting and financial management activities supporting the Foreign Military Sales program involve more than 40 Defense organizations [2: 1]. The accounting and billing

requirements and procedures for both NAVILCO and SAAC will be discussed in this chapter as well as the flow of funds and information that passes between them and other organizations involved in the financial administration of FMS.

B. FMS TRUST FUND ACCOUNTING

A U.S. Treasury Trust Fund Account is established to hold in trust or in a fiduciary capacity the FMS monies from foreign governments used in making specific purchases detailed in the FMS agreement. Although the funds are deposited with the Treasury, SAAC has the accounting responsibility for the Trust Fund. The FMS Trust Fund represents the aggregate cash received from all foreign governments.

The FMS Trust Fund is credited through the receipt of the initial deposit forwarded after the foreign government's acceptance of the DD 1513, and through the receipt of payments in response to the quarterly FMS billing statement, DD Form 645 sent by SAAC. The Trust Fund Account is debited when disbursements are made for the payment of purchases, and for reimbursing the U.S. Government for the costs incurred for FMS transactions. All receipts and disbursements within the Trust Fund are accounted for at the country level, whereas the individual case/line-item accounting records are maintained by NAVILCO and SAAC.

There are four basic principles associated with the Trust Fund management.

As a means of checks and balances, a flow of expenditure information is initiated by the ICP at the same time the ICP initiates the IDB to NAVILCO. The ICP transmits the expenditure information, summary IDB's, to a Navy Regional Finance Center (NRFC) for inclusion in NAVCOMPT's Statement of Inter-fund Transaction Report DD 1400. NAVILCO submits the NAVCOMPT Form 2025, Status of Fund Authorizations, which reports the FMS expenditures by country and case to NAVCOMPT on a monthly basis. The DD 1400, submitted to the U.S. Treasury, moves money from one appropriation to another as a non-check transfer of funds at the country, case and requisition level. [34]

Between SAAC and the U.S. Treasury a trial balance, reconciliation of records, is performed monthly. This reconciliation enables the U.S. Government to determine that all FMS disbursements reported by NAVILCO to SAAC and recorded in the Trust Fund have also been recorded in the cash account in the U.S. Treasury as reported by NAVCOMPT. The Trust Fund accounts are used to determine the amount of money that can be disbursed for stock material sold to each foreign government. The sales case accounting records are used to render an accounting to each foreign government of their cash balances. The balances in all records must agree or be reconcilable. [35: 3]

Figure XI and XII provide an overall view of a Navy FMS case as it is processed and the flow of information between the applicable agencies as previously discussed.

1. One foreign government's trust fund balance cannot be used to finance another foreign government's programs.
2. Cash disbursements will be controlled on a country basis, although accounting for FMS transactions must be on an FMS case basis.
3. With the permission of the foreign government, cash deposits maintained in the Trust Fund Account can be shifted within the country's program for the use of any case, although the accounting status of the individual case will be maintained by SAAC and NAVILCO.
4. The funds deposited into the FMS Trust Fund increase the overall volume of funds within the U.S. Treasury. The funds become part of the overall U.S. Treasury Accounting System, and therefore are under U.S. Government control from the date of receipt. SAAC, as the accountable agency, renders periodic reports to the U.S. Treasury concerning the balances of individual country accounts. [14: 16-4]

C. SAAC'S FINANCIAL CONTROL OF FMS

On 17 June 1977, the Assistant Secretary of Defense (ASD) (Comptroller) issued a memorandum which addressed "Improved Financial Control for Foreign Military Sales" [14: 16-10]. Within this memorandum, ASD (C) instituted new accounting and financial procedures for FMS transactions in the FMS Trust Fund and in the performing appropriations when FMS orders are executed on a reimbursable basis. The primary objectives of the new system were:

1. To provide an integrated accounting and financial control system for FMS,
2. To provide accounting support for the budget,
3. To facilitate budgeting, financial planning, and cost estimating for FMS transactions, and
4. To ensure compliance with all requirements for the administrative control of funds and provide a trust fund accounting system that meets GAO standards. [14: 16-11]

In accounting for FMS funds two forms were prescribed by this memorandum:

1. DD Form 2060 (FMS Obligatorial Authority)--Prepared by the military service, this form requests FMS case obligational authority from SAAC. It identifies the funding requirement on a case level basis, and also shows the impact on the U.S. appropriations which finance the FMS transaction.
2. DD Form 2061 (FMS Planning Document)--As the support document for the DD 2060, the DD Form 2061 provides the detailed pricing elements; planned financing appropriations, obligational authority received and required at a date specified, obligational authority required for the current year, and an estimate of the obligational authority required for the budget year. [14: 16-12]

With the submission of DD Form 2060 each year, the obligational authority is controlled on a yearly basis. To enhance planning efforts, the military services are required to submit current year and budget year obligational authority requests. With this information, SAAC is able to forecast expenditures more reliably, and ensure country balances in the Trust Fund are sufficient to accomodate all costs to be incurred in the near future. These forms are also required to be submitted to SAAC in support of:

1. Price and availability (P&A) responses to foreign governments;
2. Amendments and modifications to FMS agreements;
3. Price changes, and
4. Appropriation changes financing the case. [14: 16-13]

Control is also exercised by SAAC through the issuance of expenditure authority to military services. Expenditure authority allows expenditures to be incurred against obligations

previously recorded on a country's Trust Fund Account. Unlike obligational authority, expenditure authority is maintained at the country level vs. case level. This enables SAAC to ensure funds are available in the country's Trust Fund prior to payments being made.

D. THE FINANCIAL ADMINISTRATION OF FMS

The financial administration of FMS is initiated with the acceptance of the FMS agreement, DD 1513 and the applicable financial provisions by the foreign government, and the receipt of the initial deposit of funds for the FMS case by SAAC. A Trust Fund account is established by SAAC for the administration of these funds, and is controlled by SAAC through its obligational and expenditure authority.

SAAC begins the implementation of an FMS case by issuing obligational authority to the Navy Comptroller (NAVCOMPT), authorizing the Navy to incur legal reservations against an FMS Trust Fund account for a specific FMS case. With the exception of FMS training cases, the obligational authority is transferred to NAVILCO for the funding of FMS requested material. Once received by NAVILCO, this obligational authority is transferred to the Case Administering Office (CAO) for the actual requisitioning of the required material. [12: 8-5] NAVILCO acts as the CAO for Navy managed FMS cases requesting DOD or service stock material [32: 37].

To assist NAVILCO in managing the administration of FMS cases, the Management Information System International Logistics

(MISIL) data system was developed. Within this system an open requisition file is established to maintain supply and billing status for requisition document numbers issued by NAVILCO.

Delivery reporting, by a stock point, updates this file by indicating the mode of shipment and the date the material was shipped. After receiving the proof of shipment from the stock point the cognizant ICP generates the Interdepartmental Billing (IDB) for the material shipped and forwards it to NAVILCO to update this file. When both a delivery report and a bill are on file for the same requisition document number, NAVILCO submits a performance report to SAAC for billing the foreign government. [33]

The reporting of expenditures and delivery information to SAAC by NAVILCO, is accomplished with the performance reporting document, DD COMP (M) 1517. The information contained on the DD 1517 is transcribed from the MILSTRIP document and the data provided by the stock point and ICP. The 80 card column formatted report is depicted in Figure X.

The performance report submitted by NAVILCO is used by SAAC to produce the quarterly Foreign Military Sales Billing Statement, DD Form 645. The DD Form 645 represents the official U.S. claim for delivered material as well as furnishing to the foreign government an accounting of all costs incurred for each case. The funds deposited in the FMS Trust Fund are then used by SAAC to reimburse Navy appropriated funds, as specifically coded within the DD 1517.

Format of DD Comp (M) 1517

CARD CODE	
MONITOR	
SHIPPER/REPORTING ACTIVITY	
PRICE CODE	
STOCK PART NUMBER	
UNIT OF ISSUE	
QUANTITY	
CR	X
U.S. SERVICE	
COUNTRY	
CUSTOMER	
DEL TERM CODE	
TYPE FINANCE	
YEAR	
QAY	DATE
SERIAL NUMBER	
SUPPLX	
COUNTRY SV	
FREIGHT FORWARDER	
CASE NUMBER	
MODE SHIPPED	
ADJUSTMENT ALLOWANCE CODE	
PROGRAM YR	
DELIVERY SOURCE	
POE CODE	
TRANS BILL CODE	
SP/NON SP	
DATE SHIPPED	
DOLLARS	
CENTS	X
CR	
FMS CASE LINE ITEM ID	
APPROPRIATION FUND CODE	
ADJUSTED B.ING	

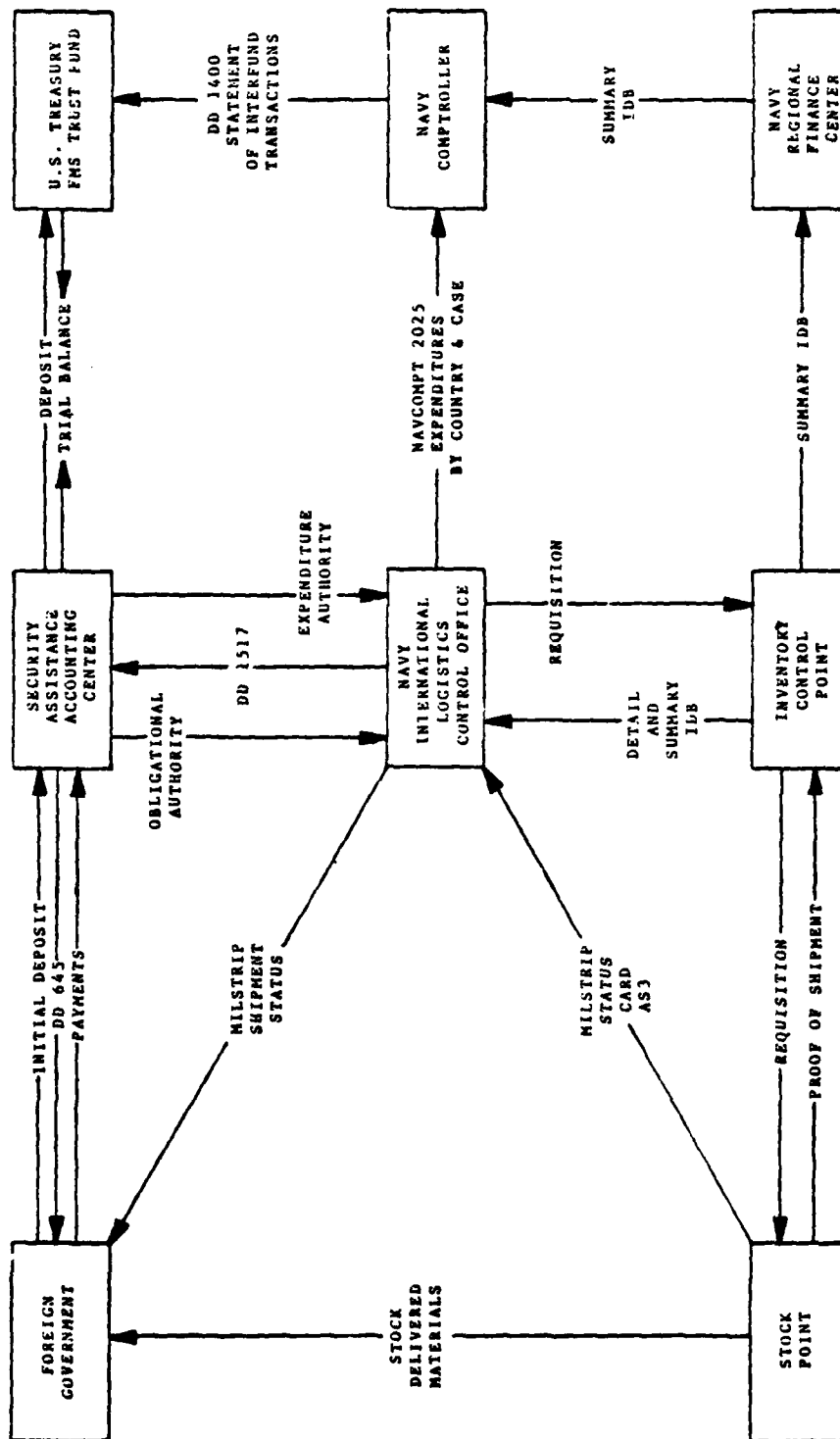
FMS DETAIL DELIVERY CARD (M) RCS

DD - COMP (M) 1517 REPORT

Source: DODI 2140.3

Figure X

NAVY FMS DOCUMENTATION FLOW AND CASE IMPLEMENTATION



Source: Prepared by the Author

Figure XII

VI. FMS ACCESSORIAL COST RECOVERY

The matter of delivery reporting has been established among the top priorities of the DOD Steering Committee for Prioritization and Implementation of Foreign Military Sales Financial Improvements [36: 16].

A. INTRODUCTION

NAVILCO is responsible for establishing management systems necessary to insure prompt implementation of FMS cases, including systems that are required to finance, account, and report the accomplishment of each individual case. NAVILCO initiates the reporting of deliveries and costs of FMS material to SAAC upon receipt of shipment and expenditure data from Navy activities.

The accuracy of such reporting impacts directly on the U.S. Government's ability to recoup the packing, crating, and handling costs incurred by U.S. Navy activities and financed by O&MN appropriation, to culminate FMS transactions. The full recoupment of U.S. Parcel Post services costs or commercial package carrier equivalent transportation costs, incurred by U.S. Navy activities and financed by O&MN appropriations, are also directly related to the accurate reporting of FMS deliveries.

Other O&MN financed transportation costs are incurred by FMS shipments utilizing the DTS. For the utilization of DTS, SAAC charges FMS customers on the basis of surcharges. Standard percentage ratios, used to compute the transportation surcharge are identified from specific codes within the DD 1517.

As of 1 January 1978, the FMS Transportation Cost Accounting System was implemented by SAAC to insure the proper recoupment of transportation costs incurred for DTS shipments. Under the first phase of this program all the actual transportation costs incurred within the DTS are billed to SAAC from the applicable TOA's. SAAC uses the FMS Transportation Trust Fund to reimburse the TOA's for the actual transportation costs incurred, while continuing to charge FMS customers and credit this fund on the basis of surcharges. Balances between the charges and the bills are carried forward in the FMS Transportation Trust Fund.

The primary advantage of billing all actual FMS transportation costs to the SAAC is that a centralized point within DOD would know precisely how much has been collected via the surcharge computation and how much actual transportation costs have been billed by the TOA's. With this information SAAC would be able to verify that total FMS transportation revenues were sufficient to cover the costs incurred as required by the Arms Export Control Act (AECA).

Rather than use the surcharge system, phase two would charge the FMS customers for actual transportation costs as billed by the TOA's. Phase two would be implemented if the full recoupment did not occur under phase one and accessorial percentages were not increased to cover full recoupment [37: 4, 38: 1].

To date, phase two has not been implemented because the surcharge system provides adequate revenues to reimburse the TOA's for the transportation costs incurred by FMS shipments. The Defense Audit Service (DAS) contends that phase two should be implemented because the percentage ratios being utilized to compute the surcharges are too high, which has resulted in the current positive balance of \$51 million in the FMS Transportation Fund. [27: 1] SAAC opposes this viewpoint on the grounds that these percentage ratios were developed by DOD studies which found wide variances between small dollar value items and large dollar value items, but in the aggregate these ratios adequately recouped these costs. The costs to transport material have risen substantially since 1978, not including inflation, and would more than likely indicate a necessity to increase the percentage ratios. SAAC contends the large balance is attributed to TOA's not billing for material shipments, and not accurately billing all the costs associated with FMS shipments. DAS also identifies these errors in the same report which supports the other claim. [27: 14]

Although the FMS Transportation Trust Fund balance, and the logistical and financial interface problems experienced by TOA's is of interest to the author, neither is pursued in this study. Rather, the transformation of logistical information into financial data which can be utilized by NAVILCO for reporting purposes is identified in this chapter. The information necessary for SAAC to appropriately charge the FMS customer for accessorial

FOREIGN MILITARY SALES REQUISITIONS ISSUED THROUGH NAVY'S INVENTORY
CONTROL POINTS AWAITING PROOF OF SHIPMENT FROM
NAVY SUPPLY DEPOTS AND AFFECTING REIMBURSEMENTS
OF NAVY'S STOCK FUND APPROPRIATION

Number of Days Awaiting Proof of Shipment	Inventory Control Points						Totals	
	Ships Parts		Aviation					
	Control Center	Number of Requisitions	Dollar Value	Supply Office	Number of Requisitions	Dollar Value	Number of Requisitions	Dollar Value
31-120		274	\$ 3,760,890		308	\$ 750,657	672	\$ 4,511,547
121-210		132	2,830,782		333	612,539	465	3,443,121
211-300		104	4,054,929		4	2,089	104	4,057,018
301-390		149	1,968,367		-	-	149	1,968,367
391-480		113	2,801,685		2	4,274	115	2,805,959
481-570		96	93,076		-	-	96	93,076
571-660		116	4,386,139		-	-	116	4,386,139
661-750		114	1,233,619		-	-	114	1,233,619
751 and greater		50	429,312		-	-	50	429,312
		<u>1,148</u>	<u>\$21,558,799</u>		<u>737</u>	<u>\$1,369,359</u>	<u>1,885</u>	<u>\$22,928,158</u>

Source: DAS Report on the review of FMS supply performance in the Navy
Figure XIII

costs is compared to the actual information being reported by NAVILCO. Variances are noted and their ramifications are expounded upon.

B. PROOF OF SHIPMENT

The FMS case agreement, DD 1513, and the FMS case directive are the basis for the development of the MILSTRIP requisition. Once implemented, this MILSTRIP data is perpetuated throughout the supply system and is the foundation for the development of reporting/delivery documentation. Changes to data elements within the MILSTRIP document can result in wide variances between what is intended in the DD Form 1513 and what actually happens in the implementation process. To preclude any errors, changes are prohibited, except for those directed by the requisition originator, NAVILCO.

As additional data is generated during the implementation process, this data is reported to NAVILCO. Shipment status, being the most common information reported, identifies the mode of shipment and the date the material requested was shipped. Simultaneously, proof of shipment information is transferred from the shipping activity to the cognizant ICP.

The receipt of this Material Release Confirmation (MRC) document initiates the transformation process of logistical information into financial data. Without the proof of shipment data, the ICP is precluded from initiating this process and the generation of the billing documentation resulting in the

subsidization of the FMS program by DOD appropriations that financed the material and O&MN appropriations that financed the material movement.

DAS reported the significance of this problem after a review of the suspense files at two Navy ICP's, SPCC and ASO. The suspense files contained, as of 31 March, 1980, 1855 unbilled FMS requisitions valued at \$22.9 million on which at least 30 days had elapsed since the MRO date initiated by the ICP. Six hundred forty of the unbilled requisitions valued at \$10.9 million were over 300 days old. [9: 16] Figure XII depicts the detailed information gathered. If I assume this material was shipped via Parcel Post, \$858, 750 could have been recouped for transportation costs and \$801,500 for PC&H costs, in addition to the inventory value of the material, \$22.9 million.

C. THE LOGISTICAL AND FINANCIAL TRANSFORMATION PROCESS

The first phase of the logistical and financial transformation process occurs at the ICP after the receipt of the proof of shipment documentation. Suspense files previously generated with the MRO to stock points are now closed, permitting ICP's to generate billing documents for the material issued and identified by the MILSTRIP documentation.

The transfer of MILSTRIP data elements to specific block locations on the Detailed Billing Card (DBC) is accomplished mechanically and in regard to data integrity. The mode of shipment, the date the material was shipped and the inventory

price of the material is added to this information by the ICP to construct the DBC.

The Summary Billing Card (SBC), used as a header card for a group of DBC's, identifies the appropriation to be credited, the appropriation to be charged, and the total amount of funds to be transferred between the appropriations. The first phase of this transformation process is completed with the transmission of the S and DBC to NAVILCO.

The final phase of the logistical and financial transformation process is initiated with the receipt of the SBC and DBC, and the Shipment Status Report, AS3, by NAVILCO. This phase and the performance reporting by NAVILCO to SAAC is precluded without the receipt of either of these documents.

The open requisition file at NAVILCO categorizes the outstanding requisitions as either unshipped or as shipped and unbilled. As of 31 March 1980, the DAS reported that the unshipped requisitions on file indicated that 123,984 requisitions had an estimated availability date (EAD), established by the ICP, which was past due. Of the 216,903 requisitions, 159,437 (74 percent) were categorized as shipped and unbilled had been shipped over one year prior to the DAS audit, but the billing documentation had not been received by NAVILCO.

[9: 7]

DAS also reported that the computer system for NAVILCO edits incoming supply and shipment status data and prior to posting them to requisition files rejects those not meeting

edit checks. Rejections, called controlled exceptions, are passed to the country program manager at NAVILCO for resolution and entry into the requisition file. During the three month period ending 31 March 1980, the average onhand balance of unprocessed controlled exceptions was 165,000, and at the rate of manual processing of these exceptions, only current exceptions could be resolved with little reduction in the backlog. The computer system also discontinues the automated followups to the ICP's for a past due EAD, once an exception occurs for a requisition. [9: 8]

With shipment status information not posted, bills received from ICP's for shipped requisitions cannot be processed, and are placed in the Bills Suspended File. In March 1980, NAVILCO had in this file 11,111 transactions totaling \$200 million that could not be processed because shipment status was not posted to the requisition file. At the same time there were 58,822 controlled exceptions applicable to shipment status that were not posted to the open requisition file [9: 9].

Without follow-up procedures for both bills and shipment status, bills remain unreported to SAAC long after the FMS Trust Fund is billed by NAVCOMP. This unnecessarily delayed processing time creates the difference between U.S. Treasury Department disbursements from the FMS Trust Fund and the value of deliveries reported by SAAC, termed Navy Float. An important problem caused by the lack of adequate follow-up procedures is the fact that records are retired two years after

billing month by the billing activities [39: 6] and after two years following the shipping date by shipping activities [40: 2, 41: 2], making the availability of billing information and the proof of shipment documentation inaccessible after this period of time. Without this information case closure becomes extremely complicated and labor intensive, and the accurate recoupment of O&MN appropriated funds becomes virtually impossible.

When both a shipping report and a bill are recorded on file for the same requisition document number, the final phase of the transformation process is initiated by NAVILCO. Construction of the DD 1517 for each requisition is implemented mechanically by the MISIL, perpetuating the data on file. An additional coded data element, the Delivery Source Code (DSC) is constructed by a subprogram within the MISIL to complete the DD 1517. The DSC is a preestablished list of defined codes which specify the type and source from which the material was shipped. (See Appendix E) The specific DSC chosen for a requisition is determined from the supply status in the MISIL files and the ultimate shipment information received.

When completed, NAVILCO forwards the DD 1517 to SAAC to report the performance and execution of the particular FMS program. (See Appendix F)

D. SAAC RECOUPMENT PROCEDURES

The detailed coding within the DD 1517 is used by SAAC's Defense Integrated Financial System (DIFS) to formulate and

charge the foreign government FMS Trust Fund the appropriate accessorial surcharge to reimburse the PCH&T costs incurred by Navy activities. The specific codes relevant to this discussion are the MILSTRIP document number, the mode of shipment, delivery source code (DSC), transportation billing code (TBC), and the dollar value of the requisition.

The application of the PC&H surcharge is determined by the DSC. If an incorrect DSC is reported by NAVILCO, the charges may be either improperly billed, or not billed even though valid. (Appendix E) PC&H reimbursements, when computed by DIFS, are forwarded to NAVILCO for further dissemination to applicable O&MN appropriated activities that originally financed this expenditure.

The transportation surcharges for the reimbursement of expenses incurred for material transported by the Defense Transportation System (DTS), the U.S. Parcel Post services, or the commercial package carrier equivalent are dependent upon the TBC, the DTC (the fifth position of the document number) and the mode of shipment, in that sequence. The DIFS is specifically programmed to review the data in this sequence for the determination of applicable percentage ratios to be utilized for the recoupment of transportation costs.

The TBC, an adaptation from the Air Force billing system, was implemented in December of 1976 with the inception of the SAAC billing as agreed upon in the DOD joint charter agreement [7]. The TBC is utilized when the conditions of material

movement must be changed from that indicated by the original DTC assigned in the DD 1513 to reflect the conditions of actual movement. The DTC can never be altered to reflect a change because, as a part of the document number, this would result in the invalid creation of a new requisition number.

The TBC was included as a standardized code within DOD Instruction 2140.3 on 6 September 1979 and the Military Standard Billing System (MILSBILLS) on 31 March 1981. The MILSBILLS provides data elements and codes, standard mechanized procedures and formats to be used by DOD components for billing, collection and related accounting for sales of material from supply system stocks. The ASD (C) provides policy guidance through DOD Instructions 7420.12 and 2140.3 and directs the implementation and compliance of the MILSBILLS throughout the DOD.

[42: Encl 2] Appendix G provides the TBC's and their descriptions.

If the TBC is present in the DD 1517, the transportation surcharge is computed based upon the value of the TBC, irrespective of the DTC originally assigned in the DD 1513 or the mode of shipment designated. If the DD 1517 does not contain a TBC, SAAC will compute the transportation surcharge based upon the DTC and the mode of shipment. Appendix H portrays this relationship.

Once computed, surcharges for material transported by the DTS are transferred into the FMS Transportation Trust Fund Account. Reimbursement of O&MN appropriations is effected by TOA's submitting actual transportation bills to SAAC to draw

against the funds in this account. However, the reimbursement of O&MN appropriated funds used to finance FMS shipments utilizing the U.S. Parcel Post service or commercial small package carriers is effected immediately by DIFS. SAAC reimburses the Navy Management Fund, as administered by the Office of the Chief of Naval Operations (CNO), for all the Navy financed U.S. Parcel Post shipments and forwards to NAVILCO for further dissemination the reimbursed funds for the commercial small package carrier shipments.

E. THE FMS DISCORD

Although the Air Force and Army readily accepted and modified their reporting procedures to accommodate the TBC's the Navy maintains that this is a repetitive code that duplicates the efforts of the DTC and the mode of shipments. (Appendix I)

The DTC, as agreed upon within the DD 1513, indicates the point within the transportation system where the responsibility for the physical movement of an FMS shipment passes from the U.S. Government to the purchasing foreign government. (20: App M] The mode of shipment code identifies the initial method of movement by the shipper [14: 21-9]

If the mode of shipment coincides with the DTC (Appendix H), then the interface with the DIFS program will compute the appropriate charge because of the coded sequence programmed in DIFS.

Deviations from the conditions described by the DTC do occur for many reasons:

1. One DTC is assigned for an entire FMS case and a particular line item in the case cannot be shipped under the terms of the assigned DTC.
2. The freight forwarder is unable to arrange transportation from a CONUS point of exit to the foreign country and it is necessary to divert the shipment to the DTS.
3. Deviations are for political/diplomatic considerations.
4. When shipments cannot be effected by collect CBL, due to tariff restrictions or refusal of carriers to accept collect freight shipments.
5. When shipments can be effected more easily and less costly by modifying standard operating procedures and utilizing the most common method of shipment, indicia.

By not utilizing the TBC to override the DTC when deviations occur, accurate shipment information is not reported to SAAC which, in turn, disables SAAC from recouping the full cost of transportation expenses.

In conformance to U.S. policy, about 90% of the FMS agreements identify that the foreign government is responsible for the cost of material movement from the point of origin to destination and a DTC of 4 is applied. [43] Of this, about 50% to 60% of the requisitions are satisfied from DOD stocks. [45] About 80% of the FMS requisitions forwarded to NSC, Oakland for execution have been for small bin issue items, while 20% have been for bulk items. Historically, about 90% of the bin issue items have been shipped Parcel Post because of the ease and low cost associated with this mode of shipment. FMS issues have not been an exception to this policy. [46] What is portrayed is a staggering percentage of FMS requisitions which, if permitted to be transmitted to SAAC without the TBC overing the DTC,

would result in the subsidation of these transportation costs by O&MN funds.

To prevent the loss of funds, SAAC specifically altered the DIFS program to accommodate the Navy. Within the DIFS a subprogram was installed to identify Navy requisitions and permit the mode of shipment code to override the DTC, with the exception of codes 0 and 4.

Although this system has prevented the loss of tens of millions of dollars, the accuracy of the reported information, hence the full recoupment, is still questionable. [7] If more than one mode of shipment is utilized to move the material to its destination, the efforts of this system are negated because the mode of shipment code cannot reflect this information. This, of course, is in addition to the previously presented problem of shipments made under the DTC of 4 and for which no reimbursements will be made.

VII. CONCLUSION

The flow of information between DOD agencies involved in FMS transactions is paramount for the ultimate recoupment of O&MN appropriated funds. The accuracy of the information provided is critical for the full recoupment of expenditures. To implement the information requirements between interdepartmental and intradepartmental agencies, and between logistical and financial agencies, an accepted and utilized universal language is necessary.

To attain a greater degree of simplification, standardization, and automation in logistics functional areas, the DOD Military Standard Logistics Systems Office (MILSO) was established to administrate the Military Standard Logistics Systems (MILS). The MILS are designed to:

1. Facilitate data interchange and compatibility among users of logistics data by providing common data and codes, and rules for their application.
2. Optimize the use of automatic data processing equipment and digital communications networks for improved logistics operations.
3. Provide a common data base to DOD Components, affected Federal agencies, foreign governments and industrial organizations (a) for use in designing and implementing compatible procedures which involve coding, transmitting, receiving, decoding and using logistics information; and (b) to generally improve operations, customer satisfaction and management control.
4. Provide a base which can be considered and utilized in the development of new or revised DOD Component logistics systems. [42:2]

The logistics functional areas prevalent to this discussion are; storage, distribution and redistribution of material, transportation and movement, and international supply support. For this discussion the applicable MILS publications are the MILSTRIP, MILSTRAP, MILSTAMP, MILSBILLS, and MAPAD.

A joint committee for each system consists of Service representatives designated as the Service focal points for the review and evaluation of proposed system revisions. Although the TBC was subjected to this review and later approved for inclusion in the MILSBILLS, it was not implemented by the Navy, resulting in the subsidization of accessorial costs.

The validity for the implementation of the TBC has only been recently communicated within the Navy. A proposed new Chapter 12 for MILSTAMP, Security Assistance Program Shipments, includes a paragraph on the reporting methodology to be employed if FMS material were shipped under conditions differing from the DTC. The Commander, Naval Supply Systems Command (NAVSUP) concurred with the proposal, with the exception that the reporting paragraph be changed to read:

When FMS material is shipped under conditions differing from that authorized by the Delivery Term Code, it is necessary to inform the reporting agency in order to avoid over or under billing the country. The shipping activity will notify the reporting agency by message of deviations of movement from the Delivery Term Code. A Transportation Bill Code (TBC) will be used by the reporting agency to report the conditions of movement to SAAC when they differ from the Delivery Term Code. [47: Encl 1]

The proposed MILSTAMP chapter has not yet been implemented due to the ongoing negotiations between the Air Force and the Navy concerning who should be designated to assign the TBC. Air Force shipping activities have always performed as the reporting agency, therefore the Air Force contends that the shippers should assign the TBC. NAVILCO is the reporting agency for the Navy, and maintains that TBC assignment will be accomplished by NAVILCO.

During these negotiations, the MISIL at NAVILCO was modified to accomodate the TBC. Program changes became effective 1 August 1981, but were made to permit only the TBC to override a DTC of 4 when U.S. Parcel Post or commercial equivalents were utilized. [45] With the special subprogram within DIFS dismantled during this transition, the importance of the MISIL modification becomes even more relevant. For the recoupment of accessorial expenditures the appropriate coding to accurately report the movement of material must be provided to SAAC. With the current system not fully utilizing the TBC, accessorial costs will continue to subsidize O&MN funds.

VIII. RECOMMENDATIONS

The goal of FMS management is to conduct the FMS program at no cost to the U.S. Government, while insuring prompt and complete service to the customer nation. Achievement of this goal requires a thorough understanding of procedures for pricing items or services furnished, administering FMS cases, and reporting of deliveries of material or services [10: Part III, G-1]

By utilizing the current reimbursable method, U.S. Government expenditures for FMS related accessorial costs can never be accurately identified, therefore never fully recouped while a common cost allocation process is utilized. However, it is very unlikely that our foreign policies and security regulations would be altered to the point of demanding foreign governments to contract a freight forwarder for the transportation and delivery of all the FMS material purchased, and authorizing the sale of DOD stock material to support previous or future supplied weapons systems purchased by foreign governments. It is equally unlikely that a comprehensive cost accounting program will be developed to accurately report the "actual" accessorial costs associated with an FMS transaction.

In order to improve the accuracy of expenditure reporting within the current system, it is recommended that the TBC be fully incorporated into the MISIL and utilized by the Navy as it was intended by the MILSBILLS. The current organizational structure of the Navy necessitates that NAVILCO be designated to assign TBC's. As the most informed activity within the Navy,

it would be logical and more effective for NAVILCO to assign the appropriate TBC.

It is recommended that further study be performed on the data capacity limitations of the DD 1517. During the research of this study the author was continually presented with the problems associated with space limitations of the eighty card column format. With current technology and tape compatibility between different computer hardware, this limitation seems archaic at best.

APPENDIX A
GLOSSARY OF ACRONYMS

ADP	Automated Data Processing
AECA	Arms Export Control Act
AFAFC	Air Force Accounting and Finance Center
ASD/C	Assistance Secretary of Defense (Comptroller)
ASD/MRA&L	Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics)
ASO	Aviation Supply Office
CAO	Case Administering Office
CCBL	Collect Commerical Bill of Lading
CNO	Chief of Naval Operations
CONUS	Continental U.S.
DAS	Defense Audit Service
DASD/ISA	Deputy Assistant Secretary of Defense (Security Assistance)
DBC	Detail Billing Codes
DIFS	Defense Integrated Financial System
DLA	Defense Logistics Agency
DOD	Department of Defense
DSAA	Defense Security Assistance Agency
DSC	Delivery Source Code
DTC	Delivery Term Code
DTS	Defense Transportation System
EAD	Estimated Availability Date

FAA	Foreign Assistance Act
FMS	Foreign Military Sales
GAO	General Accounting Office
GBL	Government Bill of Lading
ICP	Inventory Control Point
IDB	Interdepartmental Billings
JCS	Joint Chiefs of Staff
LOA	Letter of Offer and Acceptance
LTL	Less-than-truckload
MAC	Military Airlift Command
MAP	Military Assistance Program
MAPAC	Military Assistance Program Address Codes
MAPAD	Military Assistance Program Address Directory
MILSBILLS	Military Standard Billing System
MILSTAMP	Military Standard Transportation and Movement Procedures
MILSTRAP	Military Standard Transaction Reporting and Accounting Procedures
MILSTRIP	Military Standard Requisition and Issue Procedures
MISIL	Management Information System International Logistics
MRC	Material Release Confirmation
MRO	Material Release Order
MSC	Military Sealift Command
MTMC	Military Traffic Management Command
NAVCOMPT	Navy Comptroller
NAVILCO	Navy International Logistics Control Office

NAVSUP	Naval Supply Systems Command
NPFC	Navy Publications and Forms Center
NRFC	Navy Regional Finance Center
NSC	National Security Council
O&MN	Operations and Maintenance, Navy
OMB	Office of Management and Budget
P&A	Price and Availability
PC&H	Packing, Crating, and Handling
PCH&T	Packing, Crating, Handling, and Transportation
RCO	Requisition Control Office
RDD	Required Delivery Date
REQN	Requisition
SAAC	Security Assistance Accounting Center
SBC	Summary Billing Codes
SPCC	Ships Parts Control Center
SYSOMS	Systems Commands
TBC	Transportation Billing Code
TCN	Transportation Control Number
TIR	Transaction Item Report
TOA	Transportation Operating Agencies
UADPS	Uniform Automatic Data Processing System
UMMIPS	Uniform Material Movement and Issue Priority System

APPENDIX B

GLOSSARY OF SELECTED TERMS

Administrative Charges: A separate charge for packing, crating, port handling and loading, and transportation (PCH&T) associated with preparation and delivery of material.

Case: A contractual sales agreement between the U.S. and an eligible foreign country or international organization documented by DD Form 1513. One FMS case identifier is assigned for the purpose of identification, accounting, and data processing for each accepted offer (DD Form 1513).

Case Administering Office (CAO): The office assigned primary responsibility for preparation, implementation and management of an FMS case.

Expenditures: Cash disbursements.

Foreign Military Sales: That portion of United States security assistance authorized by the Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act, as amended. This assistance differs from the Military Assistance Program and the International Military Education and Training Program in that the recipient provides reimbursement for the defense articles and services transferred. Includes cash sales from stocks (inventories, services, training) by the DOD.

Grant Aid (Military): Military Assistance rendered under the authority of the FAA for which the United States receives no dollar reimbursement. Such assistance currently consists of MAP and IMETP.

Implementing Agency: The Military Department responsible for the execution of Grant Aid and FMS Programs.

Interfund Billing System (IBS): Under IBS, the selling activity will credit the appropriation or fund which owns the material and/or finances the accessorial charges at the time of billing the ordering activity and charge the appropriations/funds of the ordering activity. IBS normally encompasses all supply system sales. Reimbursable sales will be billed at the time items are dropped from inventory except that billings for sales under FMS and MAP will be based on constructive delivery.

Letter of Offer and Acceptance (LOA) (DD Form 1513): Document by which defense articles and services are offered for sale to a foreign country and by which a foreign country accepts the conditions of the sale.

Major Defense Equipment: Any type of significant combat equipment on the United States Munitions List having a non-recurring research and development cost of more than \$50 million or a total production cost of more than \$200 million.

Military Assistance Program (MAP): That portion of the United States security assistance authorized by the Foreign Assistance Act of 1961, as amended, which provides defense articles and services to recipients on a non-reimbursable (grant) basis.

Military Assistance and Sales Manual (MASM): A manual published by the Defense Security Assistance Agency under authority of DOD Directive 5105.38. It sets forth the responsibilities, policies, and procedures governing the administration of Security Assistance within the DOD.

MILSBILLS (Military Standard Billing System): This system provides data elements and codes, standard mechanized procedures and formats to be used by DOD components for billing, collecting and related accounting for sales from system stock, including direct deliveries. The mechanized procedures apply to MAP and FMS as outlined in DODI 7420.12 (regarding Interfund Billing System). (DODD 4000.25)

MILSTAMP (Military Standard Transportation and Movement Procedures): Uniform and standard transportation data, documentation, and control procedures applicable to all cargo movements in the Department of Defense transportation system.

MILSTRAP (Military Standard Transaction Reporting and Accounting Procedures): MILSTRAP prescribes uniform procedures, data elements and codes, documents and time standards for the flow of inventory accounting information, pertaining to receipt issue and adjustment actions, between inventory control points, stock control/activities, storage sites, and posts or bases.

MILSTRIP (Military Standard Requisitioning and Issue Procedures): A uniform procedure established by the Department of Defense to govern requisition and issue of material within standardized priorities.

Obligational Authority (under FMS): A document or authority (DD Form 2060 format) passed from SAAC to the implementing DOD component which allows obligations to be incurred against a given FMS case in an amount not to exceed the value of the obligational authority.

Price and Availability (P&A): Estimate of the price and the availability of defense articles and services upon which the terms of the LOA are based.

APPENDIX C

INSTRUCTIONS FOR PREPARING THE UNITED STATES DEPARTMENT OF DEFENSE OFFER AND ACCEPTANCE (DD FORM 1513)

1. Block (1) Purchaser

a. For a country, enter "Government of (name of country)" and show the office and address of the purchaser's activity designated to receive the LOA (e.g., Defense Attache, 1111 24th Street, N.W., Washington, D.C. 20301)

b. For an international organization, enter the title of the organization along with the appropriate office and address.

2. Block (2) Purchaser's Reference

A reference will always be shown. The reference may be a letter, telegram, conference, meeting, oral request, etc. The reference will always include any pertinent data (e.g., letter serial, number, message date time group (DTG)). In the event that the reference is from other than the purchaser, indicate the source of the request made on behalf of the purchaser.

3. Block (3) Case Identifier

Enter the appropriate country code, implementing agency code and case designator (e.g., UK-P-DLG).

4. Block (4) Signature

This block should be filled in by an authorized U.S. Military Department or Defense Agency representative prior to forwarding the LOA to DSAA Comptroller for the required countersignature.

5. Block (5) Typed Name and Title

Type or stamp the name and title of the U.S. representative who signed Block (4).

6. Block (6) Address

Enter the name of the issuing organization along with the address (e.g., DA, DACS-SA, Pentagon, Wash., D.C.).

7. Block (7) Date

Enter the day, month and the year that the LOA is submitted to DSAA for countersignature.

8. Block (8) This Offer Expires

Enter the appropriate expiration date, normally 85 days from the date in Block (7). (See paragraph 4, Chapter D, for further guidance.)

9. Block (9) Countersignature

The authorized representative within DSAA Comptroller for Countersignature of the LOA should sign in this block. Signature will not occur unless all the necessary information is contained on the DD Form 1513.

10. Block (10) Typed Name and Title

Type the name and title of the DSAA Comptroller authorized representative for countersignature who signed Block (9).

11. Block (11) DSAA Accounting Activity

The following address should be placed in this block. AFAFC-SAAC, Lowry AFB, Denver, Colorado 80279.

12. Block (12) Item or Reference No.

For programs which involve more than one item, enter a separate number for each item. Commence with number 1 and number consecutively to the last item; for reference to another description enter the exact reference number. In the case of weapons systems procurement, the reference identifier will relate to an attachment to DD Form 1513. This attachment will include descriptive information on the generic items procured.

13. Block (13) Item Description

Insert the Generic Code and MASL line data for each item. In addition the National Stock Number (NSN) and/or part number, as appropriate, and a complete description of the material/services should be entered. For cases involving major systems/end items all complementing/supporting material and services should be described.

14. Blocks (14 through 17)

Quantity, unit of issue, unit cost and total cost are self-explanatory. Enter information or N/A, as appropriate.

15. Block (18) Availability and Remarks

Enter one or more codes from paragraph 3, 4 and 5 of the EXPLANATORY NOTES on page 3 of the DD Form 1513. Also enter specific delivery dates, as applicable.

16. Block (19) and (20)

Offer Release Code and Delivery Term Code--See instructions contained in Figure D-7, of this Chapter.

17. Block (21) Estimated Cost

Enter estimated material/services costs in whole dollars. These costs should not include any administrative or accessorial charges.

18. Block (22) Estimated Packing, Crating and Handling Cost

Enter the value in whole dollars based on the prescribed percentages as set forth in DODI 2140.1, or actual costs if appropriate. If the charge is appropriate only to certain items, indicate the lines to which the charge was applied, or exclusion, in parenthesis. Do not show the percentage rate used in determining the cost contained in this block.

19. Block (23) Estimated General Administrative Costs

Enter in whole dollars based on the percentage set forth in DOD Instruction 2140.1, or enter "actual" cost if appropriate. If the charge is shown as actual cost based on a management case(s), show the value and reference the case(s). Do not show the percentage rate used in determining the cost contained in this block.

20. Block (24) Estimated Charges for Supply Support Arrangement

Enter the value in whole dollars based on the percentage set forth in DOD Instruction 2140.1. Do not show the percentage rate used in determining the cost contained in this block.

21. Block (25) Other Estimated Costs

Describe the charge and enter in whole dollars. If there are several specific costs, identify each in Block 13 as a NOTE. If a percentage is used, do not show the percentage rate used in determining the cost contained in this block.

22. Block (26) Estimated Total Costs

Enter the costs in whole dollars (total of Blocks (21) through (25)).

23. Block (27) Terms

Enter appropriate terms of sale in accordance with the guidance contained in Chapter G, Part III of the MASM. If an initial deposit is required, this fact should be so stated and the amount of the initial deposit entered in Block 28. In all cases where DOD direct or guaranteed credit are used insert the credit loan agreement number and its date.

24. Block (28) Amount of Initial Deposit

If by the terms of this LOA an initial deposit is required and has been stated in Block (27), the dollar amount in whole dollars of this initial deposit should be entered.

25. Block (29) through (37)

Leave blank. These blocks should be filled in by the authorized representative of the purchasing government.

26. The name and telephone number of the action officer responsible for the preparation of the DD Form 1513 should appear at the bottom of all copies submitted to DSAA for countersignature, excluding the original.

Note the following information before submission of this notice for countersignature:

a. The operations Directorate (DSAA-TS) is the point of entry in OSD for the Military Departments and Defense Agencies to use in coordinating GMS cases. The Operations Directorate is also responsible for obtaining the coordination of appropriate OSD staff elements. (See Chapter C, paragraph 6.b(4) for those LOAs and amendments which require DSAA coordination.

b. Submit for countersignature to the Management Analysis Division, DSAA Comptroller (DSAA-TC) all DD Forms 1513 in original and 2 copies (one extra copy for credit cases).

c. Attach a Financial Annex to all DD Forms 1513 except FMSO I cases.

d. Before notifying the customer of an extension of the expiration date or change to cost prior to acceptance, obtain approval from DSAA/TC, Management Analysis Division.

NAVAL POSTGRADUATE SCHOOL MONTEREY CA F/G 5/1
FOREIGN MILITARY SALES: O & MN APPROPRIATIONS ARE SUBSIDIZING A--ETC(U)
SEP 81 D W KOCH

F/G 5/1

NL

2.2

3. *Staphylococcus aureus*

100

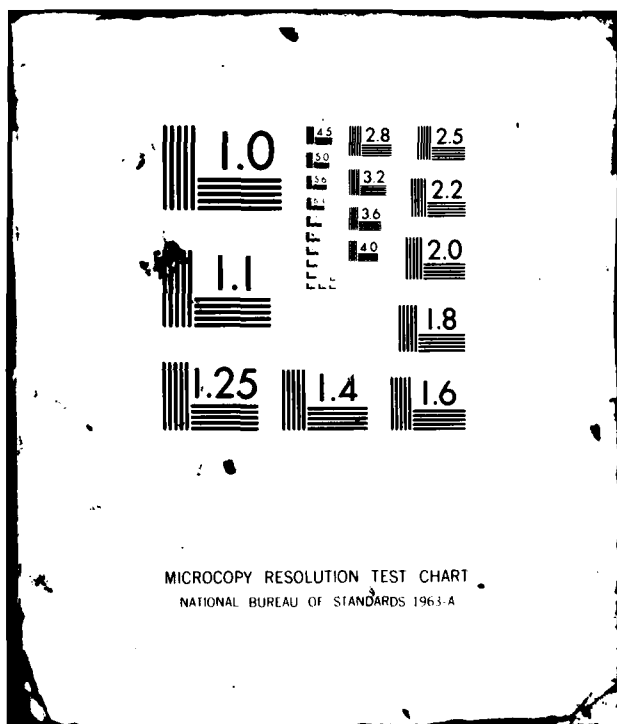
1

END

DATE _____

482

4-02
BYLH



e. Attach a termination liability worksheet for each case over \$7 million.

f. All DD Forms 1513 must be listed in the Letter of Request (LOR) system for at least seven (7) days prior to countersignature.

Appendix C

UNITED STATES DEPARTMENT OF DEFENSE OFFER AND ACCEPTANCE				(1) PURCHASER (Name and Address) (Zip Code)				
(2) PURCHASER'S REFERENCE		(3) CASE IDENTIFIER						
OFFER								
<p>Pursuant to the Arms Export Control Act, the Government of the United States (USG) hereby offers to sell to the above purchaser the defense articles and defense services listed below (hereinafter referred to collectively as "items" and individually as "defense articles" or "defense services"), subject to the terms contained herein and conditions set forth in Annex A, and to such other special terms and conditions which may be a part of, and appended to, the Offer and Acceptance.</p>								
(4) Signature (US Dept./Agency Authorized Representative)				(5) Countersignature (Officer of the Comptroller, DSA) (Date)				
(6) Typed Name and Title				(7) Typed Name and Title				
(8) ADDRESS:				(9) DSA ACCOUNTING ACTIVITY				
(10) DATE:								
(11) THIS OFFER EXPIRES:								
<p>NOTE: This offer must be accepted not later than the date shown in block 9. Within five (5) days of its acceptance, you must notify the Office of the Comptroller, DSA. Otherwise, this Offer is cancelled and retention of initial deposit by offeror pending disposition instructions shall not be deemed a waiver of such cancellation. Request prompt notification if this offer is rejected.</p>								
ITEM OR NO (12)	ITEM DESCRIPTION (13) / Harmonized System Number if applicable	QUANTITY (14)	UNIT OF ISSUE (15)	ESTIMATED		AVAILABILITY AND REMARKS (16)	OFFER RE LEASE CODE (17)	DE LIVERY TERM CODE (18)
				UNIT COST (19)	TOTAL COST (20)			
(21) ESTIMATED COST				\$				
(22) ESTIMATED PACKING, CRATING, AND HANDLING COST				\$				
(23) ESTIMATED GENERAL ADMINISTRATIVE COSTS				\$				
(24) ESTIMATED CHARGES FOR SUPPLY SUPPORT ARRANGEMENT				\$				
(25) OTHER ESTIMATED COSTS (Specify)				\$				
(26) ESTIMATED TOTAL COSTS				\$				
(27) TERMS				(28) AMOUNT OF INITIAL DEPOSIT \$				
ACCEPTANCE								
(29) I am a duly authorized representative of the Government of _____ and upon behalf of _____				(33) MARK FOR CODE _____				
(30) and Government, accept this offer under the terms and conditions contained herein (30) this _____ day of _____ 19 _____				(34) FREIGHT FORWARDER CODE _____				
(31) SIGNATURE				(35) PROCURING AGENCY _____				
(32) TYPED NAME AND TITLE				(36) DESIGNATED PAYING OFFICE _____				
				(37) ADDRESS OF DESIGNATED PAYING OFFICE _____				

DD FORM 1 MAR 79 1513

PREVIOUS EDITIONS MAY BE USED UNTIL EXHAUSTED

PAGE 1 of PAGES

APPENDIX D

Delivery Term Codes (CC 34 of DD RCS (M) 1517 Card)

<u>Code</u>	<u>Explanation</u>
2	FOB destination--inland origin to inland destination within CONUS or inland origin to inland destination within the same overseas geographical area. US/DOD is responsible for inland transportation to named inland point. Recipient country is responsible for unloading at named point and subsequent arrangements and costs.
3	FAS (Free Alongside) vessel CONUS port of exit. US/DOD is responsible for transportation to a point alongside vessel. Recipient country is responsible for loading aboard the vessel and subsequent arrangements and costs.
4	FOB origin. Recipient country is responsible for cost of CONUS inland transportation and subsequent arrangements for onward movement.
5	FOB port of exit. US/DOD is responsible for inland transportation to the CONUS port of exit. Recipient country is responsible for unloading from inland carrier at port of exit and subsequent arrangements and costs.
6	FOB overseas port of discharge. US/DOD is responsible for transportation from CONUS point of origin to and including ocean transportation to the overseas port of discharge. Recipient country is responsible for vessel discharge, port handling and subsequent arrangements and costs.
7	FOB destination (named inland point in recipient country). US/DOD is responsible for transportation from CONUS point of origin to and including overseas inland carrier delivery to named inland point. Recipient country is responsible for unloading at named point and subsequent arrangements and costs.
8	FOB vessel--CONUS port of exit. US/DOD is responsible for transportation from CONUS point of origin

to and including unloading, handling, and storage aboard vessel at port of exit. Recipient country is responsible for ocean transportation and subsequent arrangements and costs.

Ø

Services performed.

Appendix E

Delivery Source Codes¹

(CC 55-56 of DD-COMP(M)1517 Report)

<u>Articles Sold from DOD Inventories</u>	<u>Data Codes</u>
Secondary item from inventory. Shipped under matured FMSO. ² Interfund billing to SAAC. Nonreimbursable ³ . PCH and asset use charge computed by SAAC	21
Secondary item from inventory. Shipped under other than matured FMSO. Interfund billing to SAAC. Nonreimbursable. PCH and asset use charge computed by SAAC.	22
Secondary item from inventory. Shipped under matured FMSO. Reimbursable. PCH and asset use charge computed by SAAC.	23
Secondary item from inventory. Shipped under other than matured FMSO. Reimbursable. PCH and asset use charge computed by SAAC.	24
Secondary item direct shipped from procurement initiated to maintain DOD inventories. Shipped under matured FMSO. Interfund billing to SAAC. Nonreimbursable. Asset use charge computed by SAAC.	25
Secondary item direct shipped from procurement initiated to maintain DOD inventories. Shipped under other than matured FMSO. Interfund billing to SAAC. Nonreimbursable. Asset use charge computed by SAAC.	26
Secondary item direct shipped from procurement initiated to maintain DOD inventories. Shipped under matured FMSO. Reimbursable. Asset use charge computed by SAAC.	27
Secondary item direct shipped from procurement initiated to maintain DOD inventories. Shipped under other than matured FMSO. Reimbursable. Asset use charge computed by SAAC.	28
Principal/major item sold from inventory and requires replacement. Priced at estimated replacement cost. Reimbursable. PCH and asset use charge computed by SAAC.	29

DOD Services

Training Course. Reimbursable.	30
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Repair of customer-owned equipment. Reimbursable.	32
Other DOD services provided under provisions of specific FMS case line. Reimbursable.	33
Storage charges; material ready for delivery but stored at customer request or because customer did not provide necessary shipping instructions. Reimbursable.	36

Unique FMSO Charges

Annual inventory maintenance and storage costs. Charge assessed annually on current FMSO II case. Reimbursable.	40
Normal inventory loss on procurement secondary items (physical inventory gain or loss, expiring shelf life, and damage of stored parts). Charge assessed annually on current FMSO II case. Reimbursable.	41
Customer-owned material delivered because spare parts support a weapon system obsolete to DOD use. Delivery is reported against the applicable FMSO I and reduces the material value of the case. Nonreimbursable. SAAC computes PCH.	42

New Procurement

Procurement of services from a contractor.	52
Stock fund item procured to meet FMS requirement. Liquidation of advance to supplying agency. Nonreimbursable.	53
Stock fund item procured to meet FMS requirement. Self-reimbursement procedures used. Nonreimbursable.	55
Secondary procurement item procured to meet FMS requirement. Liquidation of advance to supplying agency. Nonreimbursable.	60
Secondary procurement item procured to meet FMS requirement. Self-reimbursement procedures used. Nonreimbursable.	61
Estimated price of delivered principal/major item procured for FMS customer.	62
Final price of delivered principal/major item procured for FMS customer	63

Progress payment to contractor applicable to procurement initiated to meet FMS requirement. Liquidation of advance is supplying agency. Nonreimbursable. Reversal required at time of physical delivery. 64

Progress payment to contractor applicable to procurement initiated to meet FMS requirement. Self-reimbursement procedures used. Nonreimbursable. Reversal required at time of physical delivery. 65

DOD services in support of FMS new procurement. Reimbursable. Reversal required at time of physical delivery. 68

Government-furnished material provided to contractor performing under FMS procurement. DOD Component has included applicable PCH, transportation and asset use charges. Reimbursable. Reversal required at time of physical delivery. 70

Non-recurring R&D charges when recognized on basis of progress payments to contractor. Reimbursable. Reversal required at time of physical delivery. 72

Non-recurring production charges when recognized on basis of progress payments to contractor. Reimbursable. Reversal required at time of physical delivery. 73

Miscellaneous

Advance to procurement account in support of new procurement. Reimbursable. Reversal is required when progress payment to contractor is made (Data Code 64) or when secondary items are shipped (Data Codes 27 and 28). 83

Technical data package. Reimbursable. SAAC computes PCH charges. 84

Publications. Reimbursable. SAAC computes. 85

PCH charge. 89

Royalty charge. Reimbursable. 90

¹Currently established delivery codes may be used until the effective date of this instruction.

²The term "matured FMSO" refers to FMSO II requisitions for inventory items stocked under provision of an FMSO I. The FMSO I

must have been executed at least 17 months prior to receipt of FMSO II requisitions with FMSO I Part A cash and Part B pipeline authority credited to the financing appropriation account at that time.

³The term "nonreimbursable" refers to reporting of performance for which trust fund disbursement has already been made through (a) direct citation of the trust fund on contractual documents, (b) advances to appropriation accounts, or (c) self-reimbursement procedures. Reimbursable transactions are those DD-COMP(M)1517 reports which result in a SAAC disbursement for related performance.

Appendix F

Format of DD Comp (M) 1517

CARD CODE	
MONITOR	
SHIPPING/REPORTING	
ACTIVITY	
PRICE CODE	
STOCK PART NUMBER	
UNIT OF ISSUE	
QUANTITY	
CR	N
U.S. SERVICE	
COUNTRY	
CUSTOMER	
DEL TERM CODE	
TYPE FINANCE	
YEAR	
DAY	DATE
SERIAL NUMBER	
SUPPLY	
COUNTRY SV	
FREIGHT FORWARDER	
CASE NUMBER	
MODE SHIPPED	
ADJUSTMENT ALLOWANCE CODE	
PROGRAM YR	
DELIVERY SOURCE	
POE CODE	
TRANS BILL CODE	
SP/NON SP	
DATE SHIPPED	
DOLLARS	
CENTS	N
FMS CASE LINE ITEM ID	
APPROPRIATION FUND CODE	
*0000000000	

Appendix G

TRANSPORTATION BILLING CODES

Code

- A Material moved by Parcel Post to an inland CONUS destination or freight forwarder, or to an overseas destination through the Army/AF Postal System or international mail. All subsequent arrangements are made by the FMS customer.
- B Material moved by commercial package carrier to an inland CONUS destination or freight forwarder, when all subsequent arrangements are made by the FMS customer.
- C Material moved by GBL, MAC channel airlift, LOGAIR, USAF organizational airlift, MSC sealift, and combinations thereof, to an overseas POD in rate area one or two including overseas carrier discharge. All subsequent arrangements are made by the FMS customer.
- D Any form of material for which the FMS customer is totally responsible, e.g., material moved by a collect commercial bill of lading to an inland CONUS destination, Free Alongside (FAS), overseas carrier CONUS POE, freight forwarder, a CONUS POE, or an inland overseas destination. Also used if transportation costs are not applicable.
- E Material moved by GBL, MAC channel airlift, LOGAIR, USAF organizational airlift, MSC sealift, and combination thereof, to an inland CONUS destination, Free Alongside (FAS), overseas carrier CONUS POE, a freight forwarder, or a CONUS POE, when all subsequent arrangements are made by the FMS customer.
- F Material moved by GBL, MAC channel airlift, LOGAIR, USAF organizational aircraft, MSC sealift, and combinations thereof to an overseas POD in rate area one or two when overseas carrier discharge and all subsequent arrangements are made by the FMS customer.
- G Material moved by GBL, MAC channel airlift, LOGAIR USAF organizational aircraft, MSC sealift, and

combinations thereof, to the ultimate FMS consignee at an overseas inland destination in rate area one or two.

- H Material moved by GBL, MAC channel airlift, LOGAIR, USAF organizational aircraft, MSC sealift, and combinations thereof, to a CONUS POE when all arrangements subsequent to loading the vessel are made by the FMS customer.
- J Material moved by MAC channel airlift to an overseas APOD in rate area one or two when the use of inland CONUS transportation is not required in effecting delivery to the CONUS POE. All arrangements subsequent to carrier discharge are made by the FMS customer.
- K Material moved by MAC Special Assignment Airlift Mission (SAAM) within the CONUS, to an overseas APOD or inland FMS consignee base, within an overseas area or between overseas areas. Any arrangements subsequent to carrier discharge are made by the FMS customer.
- L Substitute for any of the other standard codes whenever actual transportation costs will be reported in accordance with DODI 2140.1 (Reference B).
- M Material moved by FMS country owned aircraft from a US/DOD staging area.
- N Material moved by GBL, LOGAIR, or other CONUS inland mode to a CONUS staging/aggregation area; staging/aggregation of the material; and onward movement of the material to a freight forwarder by a collect Commercial Bill of Lading (CBL), by country-owned or provided aircraft, or by MAC or by commercial SAAM.
- P Material moved by GBL, LOGAIR, or other CONUS inland mode to a CONUS staging/aggregation area; staging/aggregation of the material; and onward movement of the material by GBL, LOGAIR, or other prepaid (reimbursable) CONUS transportation to an aerial/water POE, Free Alongside (FAS) an overseas carrier at a CONUS POE, or to any other CONUS destination, when all subsequent arrangements are made by the FMS customer.
- Q Material moved by GBL, LOGAIR, or other CONUS inland mode to a CONUS staging/aggregation area; staging/

staging/aggregation of the material; out movement of the material from the staging area by GBL, LOGAIR, or other prepaid (reimbursable) CONUS transportation to an aerial/water POE; port handling of the material; and onward movement by GBL, MAC channel airlift, USAF organizational aircraft, MSC sealift, and/or combinations thereof to an overseas POD in rate area one or two, when overseas carrier discharge and all subsequent arrangements are made by the FMS customer.

- R Material moved by GBL, LOGAIR, or other CONUS inland mode to a CONUS staging/aggregation area; staging/aggregation of the material; out movement of the material from the staging area by GBL, LOGAIR, or other prepaid (reimbursable) CONUS transportation to an aerial/water POE; port handling of the material; onward movement by GBL, MAC channel airlift, USAF organizational aircraft, MSC sealift, and/or combinations thereof to an overseas POD in rate area one or two; overseas port handling of the material; and onward overseas inland movement to the ultimate FMS consignee at an overseas inland destination in rate area one or two.
- S Material moved by GBL, LOGAIR, or other CONUS inland mode to a CONUS staging/aggregation area; staging/aggregation of the material; out movement of the material from the staging area by GBL, LOGAIR, or other prepaid (reimbursable) CONUS transportation to an aerial/water POE; and loading of the material aboard a country owned or provided aircraft/vessel, when all arrangements subsequent to loading the aircraft/vessel are made by the FMS customer.
- U Material moved by Parcel Post or commercial package carrier to a CONUS POD when all arrangements subsequent to loading the vessel are made by the FMS customer. (Mode of shipment determines whether Parcel Post or commercial package carrier used.)
- V Material moved by Parcel Post or commercial package carrier to an overseas POD in rate areas one or two, including overseas carrier discharge, when subsequent arrangements are made by the FMS customer. (Mode of shipment determines whether Parcel Post or commercial package carrier used.)
- X Material moved by Parcel Post or commercial package carrier to an overseas POD in rate areas one and two when overseas carrier discharge and subsequent

arrangements are made by the FMS customer. (Mode of shipment determines whether Parcel Post or commercial package used.)

Y

Material moved by Parcel Post or commercial package carrier to the ultimate FMS consignee at an overseas inland destination in rate areas one or two. (Mode of shipment determines whether Parcel Post or commercial package carrier used.)

Appendix H

Transportation Charges

Using Delivery Term Code

If the report does not contain a transportation bill code SAAC will compute transportation as follows, except as in notes below.

If delivery term
code, 5th position
of document No.,
is equal to:

And mode of shipment
(encl. 7, atch. F) is

Computation

2	All modes	LIA CONUS at 3.75% all countries
3	All modes	LIA CONUS at 3.75% all countries
4	I, N, C, Z, and 2	LIA CONUS at 3.75% and L2B at 2.5% for all countries
5	A, B, C, D, E, I, J, K, L, M, N, O, Q, R, S, T, U, V, W, X, Y, Z, 2, 4, 5, and 9	LIA CONUS at 3.75% all countries
6 (Air)	N, O, Q, R, S, T, U, Y, 7, and 4	LIC at 6% for coun- tries in rate area 2. For all countries in rate area 1, LIC at 4.0%. Also, LIA CONUS at 3.75%, L2B at 2.5% for all countries
6 (Ocean)	A, B, C, D, E, I, J, K, L, M, V, W, X, Z, 2, and 9	LIB at 6% for coun- tries in rate area 2. For all countries in rate area 1, LIB at 4.0%. LIA CONUS at 3.75% and L2B at 2.5% for all countries

7(Air)	Same as code 6 (Air)	Same as code 6 (AIR), except add LIA over- seas at 3% and L2C at 1% for all countries
7(Ocean)	Same as code 6 (Ocean)	Same as code 6 (Ocean), except add LIA overseas at 3% and L2C at 1% for all countries.
8	A, B, C, D, E, I, J, K, L, M, N, O, Q, R, S, T, U, V, W, X, Y, Z, 2, 4, 5, and 9	LIA CONUS at 3.75% and L2B at 2.5% for all countries
4,5,6,7,8	G, H, 5, and 6	LID at 3.75% for all countries
Ø	N/A	No computations per- formed.

Note 1. When delivery source code is 66 or 67, LIA CONUS or LID are not computed regardless of the delivery term code. This same limitation is applicable when delivery source codes 15, 46 and 48 for U.S. Army (implementing agency code "B") are present, and when fund code "9" is present for U.S. Army and U.S. Navy (implementing agency code "P") reports.

Note 2. When delivery source code is 74, no accessorial costs (PCH&T) are computed.

Note 3. When delivery source code is 71, no accessorial and/or administrative costs are computed.

Appendix I

Mode of Shipment Codes
(CC 51 of RCS(M) 1517 Card)

<u>Mode of Shipment Code</u>	<u>Initial Method of Movement by the Shipper</u>
A	Motor, truckload
B	Motor, less truckload
C	Van (unpacked, uncrated personal and/or Government property)
D	Driveaway, truckaway, towaway
E	Bus line
F	Military Airlift Command
G	Surface, parcel post
H	Air, parcel post
I	Government truck, including common service
J	REA express
K	Rail, carload
L	Rail, less carload
M	Freight forwarder
N	Contract air (LOGAIR/Quicktrans)
O	Organic military air
P	Through bill of lading
Q	Air freight
R	Air express
S	Air charter

T	Air freight forwarder
U	Air, van
V	Sea-van service
W	Water, river, lake, coastal (Commercial)
X	Sealift-Express service (Sea EX) (Do not show on TCHD's' for use in shipment status and tracing only)
Y	Inta-theater airlift system
Z	MSTS (controlled/contract/arranged space)
2	Government watercraft barge/ligh- ter
3	Roll-on/roll-off service
4	Armed Forces Courier Service (ARFCOS)
5	United Parcel Service
6	Military ordinary mail (MON)
7	Weapons system pouch service
9	Local delivery, including deliv- eries between air or water term- inals and adjacent activities

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